

**INQUIRY INTO THE PART TWO REPORT OF THE
OFFICE OF THE AUDITOR GENERAL FOR THE
FINANCIAL YEAR 2004.**

REPORT TO THE NATIONAL PARLIAMENT

1. EXECUTIVE SUMMARY

- 1.1. By 2004, the Constitutional and statutory scheme for Departmental financial accounting and accountability for the management and use of public monies, had collapsed.
- 1.2. By 2004 not one National Government Department could make, keep, submit or produce all statutory records, accounts or reports.
- 1.3. By 2004 National Government Departments did not comply with the requirements of the ***Public Finances (Management) Act 1995***, the ***Financial Instructions*** or the ***Constitution***.
- 1.4. By 2004, not one National Government Department could properly manage its own internal finances or reconcile its own bank accounts – including the Department of Finance.
- 1.5. By 2004 not one National Government Department complied with all the requirements of the Constitution, the ***Public Finances (Management) Act 1995*** or the ***Financial Instructions*** and most did not comply with any of the

requirements of those Acts or Instructions – including the Department of Finance.

1.6. By 2004, devolved accounting in National Government Departments had failed.

1.7. There follows a summary of failings in fiscal accounting by National Government Departments:

- twelve Departments exhibited significant control weaknesses in asset management;
- eleven Departments demonstrate significant weaknesses in salary control;
- seventeen Departments exhibited significant weaknesses in procurement/most not complying at all.
- seventeen Departments had significant control weaknesses in accounts payable.
- six Departments had considerable control weaknesses in cash receipts;
- fourteen Departments had significant weaknesses in bank reconciliations of drawing accounts and Trust accounts;

- twelve departments failed to reconcile PGAS (Departmental records) to TMS (Department of Finance and Treasury records).
- two Departments have no revenue records at all.
- four Departments do not reconcile revenue records with Department of Finance at all.
- seventeen Departments exhibited non-compliance with **Public Finances (Management) Act 1995** and **Financial Instructions**;
- thirteen Departments showed significant control weaknesses in unacquitted advances.
- twelve Departments do not reconcile expenditure with the Department of Finance at all.
- nine Departments have incomplete records or no control over salaries.
- at least five Departments were either not audited or there were insufficient records to reach any conclusions at all.
- not one Department complied with all the **PF(M)A** requirements.
- not one Provincial Government complies with the **PF(M)A**.

- not one LLG complies with the Organic Law accounting or fiscal management requirements
- the IRC has not reconciled its bank accounts at all
- sixteen Departments do not have asset records or incomplete asset records
- twelve Departments have no motor vehicle records
- nine Departments have no trust records or refused to produce them. No Department has reliable complete records.
- only one Department has a working and effective internal audit section.

1.8 The Department of Finance has failed to:

- maintain accounting policies
- maintain and enforce subsidiary accounts as required to record receivables and payables.
- act on the 2003 and 2004 Reports of the Auditor General in the area of Public Account balances
- properly require or enforce maintenance of bank reconciliations by Departments
- follow up outstanding returns

- review returns that are submitted
- enforce controls over drawing accounts in departments
- followed up on outstanding reconciliations
- imposed sanctions available to it
- present to the Auditor General reliable and lawful Departmental drawing accounts, Provincial Operating Accounts, and Receiver of Public Monies Accounts – which resulted in the loss of tens of millions of kina
- to impose fiscal discipline on the Department of National Planning and Monitoring in respect of supplementary appropriations
- prevent deliberate misappropriation of payments in that money was paid from the consolidated revenue to Trust Accounts
- prevent deliberate mishandling of money to alter surplus figures for 2005 and 2006
- properly state Aid grant receipts

- properly state the surplus in that it was, in 2005, overstated by K 6 million.
- monitor or control Trust Accounts
- keep any record of the number of Trust Accounts
- require Trust returns
- ensure that the Minister approves Trust Accounts
- reconcile trust accounts and records
- prevent Trust Accounts from being overdrawn
- keep or demand the keeping of Trust Account records, and accounts as required by the **PF(M)A**.
- negotiate with banks to ensure a better rate of interest on Trust Accounts.
- maintain an investment register
- maintain a register of Trust Accounts.
- comply with the **PF(M)A** with regard to write offs and losses
- submit any of the Public Account to internal audit

- exercise proper controls over advances
- establish guidelines for advances
- keep any control over permanent advances
- prevent abuses and illegal activities in its own Department and other entities of Government
- establish or keep any control over Special Pays Account at all
- establish procedures to monitor Special Pays Account
- act legally in the management of Trust Fund Suspense Account No. 2
- prevent irregular and illegal payments and
- has misappropriated money into and from Trust Fund Suspense Account No.2
- establish or meet prudent accounting practices in respect of Trust Fund Suspense Account No.2
- keep or submit records for Trust Fund Suspense Account No2

- keep control over District Treasury imprest accounts
- prevent illegal activity in its own Department
- properly monitor revenue receipts
- to step in and control obviously incompetent and corrupt entities of Government as required by the **PF(M)A**.
- exercise any control over Departmental accounting and thereby failed to establish the required assurance as to the accuracy and reliability of the Public Accounts and compliance with legislative requirements.
- refused to assist the Auditor General
- withheld documents and records from the Auditor General
- failed to carry out its legal duty to comply with requests of the Auditor General
- failed to obey and implement virtually any requirement of the **PF(M)A** or the **Financial Instructions**.

- 1.8. In particular, by 2004 the Department of Finance had failed to enforce proper, lawful and timely accounting by National Departments – particularly in respect of Trust Accounts.
- 1.9. By 2004 misappropriation and fiscal mishandling of public monies within and by National Departments was well established – particularly in the Department of Finance.
- 1.10. By 2004 there was a failure of Law Enforcement, audit oversight, Executive control and fiscal accountability to the point where the Public Accounts of the nation were disclaimed by the Auditor General as being unreliable (at best).
- 1.11. This disclaimer was the result of the collapse of accounting systems across all of Government.
- 1.12. By 2004, Departments which managed Trust Accounts were incapable of making, keeping or submitting statutory Trust Accounting records – including the Department of Finance.
- 1.13. By 2004 Executive control of public monies and Government finances had failed and been supplanted by unaccountable management by officers of the Public Service who were themselves unaccountable, acted unlawfully and failed to carry out their lawful duties to make and submit statutory returns, accounts or reports.
- 1.14. So bad had the situation become by 2004, that the Auditor General was unable to audit significant parts of the Public Accounts and/or many areas of Government because there were no records or accounts.

- 1.15. In 2004 the state of accounting for public monies by Government agencies became suddenly worse and more impenetrable than previous years. The Auditor General was unable to trace or reconstruct accounts or records – particularly Trust Account records – and this led to the disclaiming of the Public Accounts for that year.
- 1.16. By 2004, there had developed a culture of impunity against and behind which fiscal mishandling and misappropriation has prospered. So pernicious is this culture that there was, and is, no fear or risk of detection or punishment for those who would act illegally with public funds.
- 1.17. 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 Heads of the Departments of Finance and Treasury intentionally refused to render account or assistance to this Parliament.
- 1.18. National Departments, by 2004, were without control or oversight in their fiscal management and acted with impunity and immunity in their handling of public monies and in this refusal or failure to account lawfully – or at all.
- 1.19. 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.

- 1.20. There is a direct correlation between the collapse of public fiscal accountability by Departments and failure of service delivery and development.
- 1.21. To the end of 2004, service delivery had faltered and, in some areas failed, in large measure the result of fiscal mischief and/or incompetence on a huge scale by the very persons responsible for properly and lawfully applying public monies – our Public Service at all levels of Government and administration. The results are clear to see in any social indicator of health and education and we believe this situation continues currently.
- 1.22. This intentional non-cooperation has seriously impeded this Inquiry and has limited our ability to make recommendations for reform. This is not acceptable.
- 1.23. 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.
- 1.24. 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.

- 1.25. 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.
- 1.26. Senior management has failed to enforce standards of accounting required by Law and no analysis of capability has ever been conducted – this must change.
- 1.27. The **Public Finances (Management) Act 1995** requires updating and modernization.
- 1.28. Ongoing training and supervision of accounting staff must be implemented and maintained at all levels of Government.
- 1.29. 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**.
- 1.30. 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.

- 1.31. 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.
- 1.32. 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**.
- 1.33. The Public Accounts Committee now tables the report with its strongest recommendation that remedial action be immediately taken by the National Parliament in accordance with findings and resolutions of the Public Accounts Committee.

2. INTRODUCTION

- 2.1. On the 11th day of November 2008 the Permanent Parliamentary Public Accounts Committee concluded a long running inquiry into the keeping of the Public Accounts of the Independent State of Papua New Guinea for the financial year ending the 31st December 2004 – including the Part Two Report of the Auditor General for 2004.
- 2.2. The Inquiry was held pursuant to the powers vested in the Committee by Section 86 of the **Public Finances (Management) Act 1995**.

- 2.3. When reading this Report, Members should understand that the Report concerns the Public Accounts of five years ago – not of the present time. Therefore, where the Report concerns the Public Accounts statements for 2004 or the findings of the Auditor General for that year, the Report is written in the past tense and should be understood in that way.
- 2.4. However, this Inquiry did not occur until 2008 due to delays in the preparation and tabling of the Reports in the National Parliament.
- 2.5. Therefore, findings and censure of conduct before the Committee – particularly of the Departments of Finance and Treasury - are current to December 2008.
- 2.6. This Report contains matters of an extremely serious nature and of immediate National importance. They requires urgent and immediate attention from Government and sweeping reform and reconstruction.
- 2.7. As a result of evidence taken in this Inquiry, the Public Accounts Committee makes findings which are highly critical of fiscal management and accountability by National Government Departments.
- 2.8. The Committee conducted contemporaneous Inquiries into the Part 1 Reports of the Auditor General for the year 2004, the capacity and funding of the Office of the Auditor General, the Part 3 Reports of the Auditor General into Provincial Governments for the year 2004, the Part 4 Reports of the

Auditor General for the year 2004 and all Government Trust Accounts.

- 2.9. The intention in conducting these detailed Inquiries was to provide the National Parliament with a comprehensive description and analysis of the state of the fiscal accountability of Government in Papua New Guinea for the year 2004 and, thereby, a full and complete examination of the Public Accounts.
- 2.10. This was an ambitious and unique attempt to provide an analysis of the state of our financial management and the reliability and accuracy of the statement of Public Accounts for 2004 and 2005. We intend to perform the same exercise for the financial years 2006 and 2007 as soon as possible.
- 2.11. As we have said, the Inquiries revealed the depth and extent of the failure of our systems of accounting, fiscal management, financial reporting and compliance with legal requirements and accounting prescriptions but, more worryingly, the extent to which organized and even institutionalized misappropriation and mishandling of public monies has infiltrated and compromised those systems.
- 2.12. The Committee intended to establish reasons for the collapse of fiscal accountability, the extent of the problem, the non-performance of the Public Service, the failure of Government to heed warnings of failure by the Auditor General, the apparent failures of the supervising agencies and the seriousness and immediacy of the problem.

- 2.13. Most importantly, by this Inquiry and Report, the Committee intends to identify the problems in order that appropriate solutions may be found and applied by the National Parliament.
- 2.14. There is no doubt that this is the first time that the mosaic of fiscal and Governance failures has been declared or understood. It is a dire picture.
- 2.15. The non production of accounts and records by Departments was, in 2004, largely intentional and deliberate and designed to prevent audit.
- 2.16. The Department of Finance was, by 2004, a failed Department incapable of lawfully managing even its own internal finances and disinterested and incapable of fulfilling its duty to keep and maintain the accounting standards throughout Government.
- 2.17. Trust Accounts were widely abused in 2004 – particularly within the Department of Finance, the very Department that exists to control and monitor Trust accounting in Government.
- 2.18. Governments apply public funds to drive development and service delivery to our people – generally in an equitable and well intentioned way. National Government Departments are the conduit for that development charged with turning funding into policy achievement.

- 2.19. 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 worst, act illegally with impunity and immunity in the mishandling of public monies, keeping no records or accounts - and this has impacted on development delivery.
- 2.20. The results of this collapse have been manifold.
- 2.21. 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.
- 2.22. 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.
- 2.23. 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.
- 2.24. 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.

- 2.25. 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.
- 2.26. Fifthly, vital information which should be accurately set out in the Public Accounts was, in 2004, not available.
- 2.27. 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.
- 2.28. 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.

- 2.29. Seventhly, the Government and the National Parliament had clearly lost control of the Public Service and thereby responsible, lawful and equitable application of public monies – the most basic requirement for a modern, sovereign nation.

3. CHRONOLOGY

- 3.1. The Public Accounts Committee commenced its Inquiry into the Public Accounts, including the Part Two Reports of the Auditor General of the Independent State of Papua New Guinea on the 14th December 2007 and continued on the 30th April 2008, 4th May 2008, 14th July 2008, 22nd September 2008, 24th September 2008 and the 11th November 2008 when the Inquiry closed.
- 3.2. Requests to produce evidence and documents were given to the Secretaries of the Departments of Finance and Treasury on the 12th December 2007.
- 3.3. These Notices to Produce were not complied with.
- 3.4. On the 19th May 2008 written questions were directed to the Secretary for Finance, Mr. Gabriel Yer. The information sought would have assisted the Committee and shortened this Inquiry very considerably.
- 3.5. No response was ever received.

- 3.6. The Inquiry was prolonged and frustrated by the deliberate and obstructive refusal of Mr Tosali and Mr Yer to attend the Committee or to provide assistance and information when requested. These failures will be the subject of further comment and referral in this Report.

4. LIST OF ABBREVIATIONS

4.1 **"PF(M)A"**

Public Finances Management Act

4.2 **"PAC"**

Public Accounts Committee

4.3 **"the Constitution"**

Constitution of the Independent State of Papua New Guinea

4.4 **"TMS"**

Treasury Management System

4.5 **"PGAS"**

Papua New Guinea Government Computerised Accounting System.

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

The Permanent Parliamentary Committee on Public Accounts.

5. COMPOSITION OF THE COMMITTEE

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

30th April 2008.

Hon. Timothy Bonga OL MBE MP – Chairman.

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

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

Hon. Sailon Beseo M.P. – Member.

Hon. Fr. John Garia M.P. – Member.

Hon. Malakai Tabar M.P.

Hon. Koni Iguan M.P. – Member.

Hon. Lucas Dekena M.P. – Member.

Hon. Philip Kikala M.P. –Member.

Hon. Francis Marus M.P. – Member.

Hon. Benjamin Poponowa M.P. – Member.

Hon. Jack Cameron M.P. – Member.

Hon. Sam Basil M.P. – Member.

Hon. John Kekeno M.P. – Member.

07/07/2008.

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

Hon. Jack Cameron M.P. – Member.

Hon. Fr. John Garia M.P. – Member

Hon. Lucas Dekena M.P. – Member.

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

Hon. Philip Kikala M.P. – Member.

14/07/2008.

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

Hon. Benjamin Poponawa M.P. – Member

Hon. Francis Marus M.P. – Member

Hon. Koni Iguan M.P. – Member.

Hon. Lucas Dekena M.P. – Member.

Hon. Malakai Tabar M.P. – Member.

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

Hon Philip Kikala M.P. – Member.

Hon. Sai Beseo M.P. – Member.

22/09/2008.

Hon. Timothy Bonga OL MBE M.P.

Hon. Dr. Bob Danaya M.P. – Member

Hon. Benjamin Poponawa M.P. – Member.

Hon. Francis Marus M.P. – Member.

Hon. Jack Cameron M.P. – Member.

Hon. Fr. John Garia M.P. –Member.

Hon. Hon. Lucas Dekena M.P. – Member.

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

24/09/2008.

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

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

Hon. Benjamin Poponawa M.P. – Member.

Hon. Francis Marus M.P. – Member.

Hon. Jack Cameron M.P. – Member.

Hon. Fr. John Garia M.P. – Member.

Hon. Koni Iguan M.P. – Member.

Hon. Lucas Dekena M.P. – Member.

Hon. Malakai Tabar M.P. – Member.

Hon Malcolm Smith-Kela MBE CMG DFC MP – Member.

Hon. Philip Kikala M.P. – Member.

Hon. Sai Beseo M.P. – Member.

Hon. Sam Basil M.P. – Member.

11/11/2008.

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

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

Hon. Benjamin Poponawa M.P. – Member.

Hon. Jack Cameron M.P. – Member.

Hon. Fr. John Garia M.P. – Member.

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

Hon. Philip Kikala M.P. – Member.

Hon. Sai Beseo M.P. – Member.

Hon. Sam Basil M.P. – Member.

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

6. JURISDICTION AND PURPOSE OF THE INQUIRY.

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

JURISDICTION

The Constitution of the Independent State of Papua New Guinea.

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

"216. Functions of the Committee

- (1) The primary function of the Public Accounts Committee is, in accordance with an Act of the***

Parliament, to examine and report to the Parliament on the public accounts of Papua New Guinea and on the control of and on transaction with or concerning, the public monies and property of Papua New Guinea”.

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

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

- 6.8. Whilst engaged in the Inquiry the Committee was guided by two definitions contained in the Constitution, which are directly relevant to Section 216 of the Constitution. They are:

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

and

“Public moneys of Papua New Guinea” includes moneys held in trust by the National Executive or a public officer in his capacity as such, whether or not they are so held for particular persons;”
Schedule 1.2 of the Constitution.

The Public Finances (Management) Act 1995.

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

“ (1) The functions of the Committee are –

“(a) to examine the accounts of the receipts and expenditure of the Public Account and each

statement and report of the Auditor-General presented to the Parliament under Section 214 of the Constitution or Section 113 (8) (a) of the Organic Law on Provincial Governments and Local-level Governments".

- 6.10. The Committee has considered such statements and Reports of the Auditor General as were presented to Parliament and in particular the Part Two Report of the Office of the Auditor General for the financial year 2004.
- 6.11. The Committee has further considered Reports of the Auditor General which have not yet been presented to the Parliament, on the basis that that evidence was tendered by the Auditor General for the consideration of the Committee and at the request of the Committee, on the basis that such material is within the purview of the Committee as a matter of national importance.
- 6.12. Power to refer matters for investigation and possible prosecution is granted to the Committee by Section 86A of the ***Public Finances (Management) Act 1995***.

Permanent Parliamentary Committees Act 1994:

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

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

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

Public Finances (Management) Act 1995.

- 7.1 The ***Public Finances (Management) Act 1995*** prescribes the method and standard of the administration of and accounting for public monies, public properties and stores by Government.
- 7.2 Further, the Act imposes certain obligations on Public Servants for collection of State revenue and controls the expenditure of public monies.
- 7.3 Relevant sections of the Act which were considered by the Public Accounts Committee during the course of the Inquiry into the Public Accounts are:
- (i) **Section 5 – Responsibilities of Heads of Department**

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

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

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

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

This Part empowers and imposes functions and obligations on the Public Accounts Committee. In particular, the Committee was required to consider Section 86 (A) – power to refer officers of the Department to the Office of the Public Prosecutor for investigation and possible prosecution relating to breaches of the ***Public Finances (Management) Act 1995*** and/or the ***Constitution***.

(iv) **Part XI - Surcharge**

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

(v) **Section 112 – Offences**

This Section prescribes disciplinary action which may be taken against certain public servants or accountable

officers who fail to comply with the terms of the ***Public Finances (Management) Act 1995***.

Financial Instructions.

- 7.4 Section 117 of the ***Public Finances (Management) Act*** enables the promulgation of certain ***Financial Instructions*** which establish detailed procedures for the handling, collection, expenditure, disposal of and accounting for public monies, property and stores.
- 7.5 The Public Accounts Committee had regard to these ***Financial Instructions*** or Directives when considering the 2004 Part Two Report.
- 7.6 In particular, the Committee had regard to **Part 6 Division 1 Para. 2.1 – Accountable Officers**. That paragraph reads, in part:

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

Audit Act 1986.

- 7.7 The ***Audit Act 1986*** establishes and empowers the Office of the Auditor General to carry out its work of overseeing and supervising the handling of public monies, stores and

property by all arms of the National Government. The Public Accounts Committee had regard to the terms of this Act during the course of this Inquiry.

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

Permanent Parliamentary Committees Act 1994.

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

Parliamentary Powers and Privileges Act 1964.

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

this respect. This matter is developed more fully in this Report (infra).

PURPOSE OF THE INQUIRY

- 7.13 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 Two Report of the Office of the Auditor General for the year 2004 and all the evidence relevant to the compiling and presentation of that Report.
- 7.14 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.
- 7.15 Further, the intention of the Committee was to report to the National Parliament in a meaningful way on alterations that the Committee thinks desirable in the form of the Public Accounts as manifested in the method of keeping them, in the method of collection, receipt, expenditure or issue of public monies and/or for the receipt, custody, disposal, issue or use of stores and other property of the State by all arms or

Departments of Government as those matters are revealed in the 2004 Part Two Report of the Auditor General or other evidence received by the Committee.

- 7.16 In short, the purpose of the Inquiry was to examine the quality, reliability and legality of Government accountability for the keeping, handling and transactions with public money at all levels and in all parts of the Government of Papua New Guinea.

8 THE AUTHORITY TO REPORT

- 8.1 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***.

9 THE AUTHORITY TO REFER

- 9.1 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***.

- 9.2 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**.
- 9.3 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***.
- 9.4 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.
- 9.5 Regrettably, the Committee is required to make referrals of individuals for further investigation and possible prosecution as a result either of their non compliance when summoned to this Inquiry or as a result of evidence received by the Committee in the Inquiry or their demonstrated attitude toward this Committee or its proceedings.
- 9.6 In particular the Secretaries of the Departments of Finance and Treasury simply refused to answer Summonses issued

and served by the Committee or to assist or cooperate with the Committee. What oral evidence was given by these Officers was difficult to understand and/or unresponsive.

9.7 Those referrals were made after anxious consideration of the evidence and any explanations given by the persons concerned. The Secretaries for the Departments of Finance and Treasury were invited to make any response or show any reason why they should not be referred, but made no response to the Committee in this regard.

9.8 The Committee is cognisant that to make referrals, particularly of a senior public servant is a very serious matter which will adversely reflect on the individual concerned. These referrals are not made lightly but only after careful consideration of all the evidence and unanimous resolution by the Committee and where there is clear and unequivocal evidence which requires either specialized investigation by the appropriate agency or where a failure to cooperate with the Committee, as required by Law, was clear.

10 METHOD OF INQUIRY

10.1 The Inquiry into the 2004 Public Accounts was established by Terms of Reference promulgated by the Committee and resolution of the Committee. The Inquiry continued for many months. A copy of the Terms of Reference is shown in Schedule 6.

- 10.2 The Inquiry by the Public Accounts Committee into the Part Two Report of the Auditor General for the financial year 2004 was a public hearing at which sworn evidence was widely sought from a large range of sources, but received from only a small number of witnesses.
- 10.3 Oral evidence was received from representatives of several selected Departments of the Public Service, Provincial Administrators, the Office of the Auditor General and from the Acting Chief Secretary to Government, Ms. Margaret Elias.
- 10.4 Early in this Inquiry, the Committee became aware that it was dealing with a serious and thoroughgoing collapse of fiscal accountability by Government.
- 10.5 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.
- 10.6 The Committee decided to conduct a constructive Inquiry intended to identify the reasons for the collapse of accountability and to make informed suggestions and recommendations to the National Parliament to commence the process of reform and/or restoration of these systems.
- 10.7 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.

- 10.8 The Committee solicited opinion, advice, recommendations and policy from many quarters. In particular, the Committee publically advertised its Terms of Reference and placed public advertisements in local media seeking assistance and submissions from any person who wished to give them.
- 10.9 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.
- 10.10 The Committee solicited this assistance over the life of the Inquiry but received virtually no assistance at all from either Mr. Gabriel Yer (Secretary and Head of the Department of Finance) or Mr. Simon Tosali (Secretary and Head of the Department of Treasury).
- 10.11 The Committee concludes that these two senior administrators intentionally and deliberately decided to obstruct the Committee in its work. Letters were unanswered, questions ignored, requests for assistance disregarded and Summonses to appear as witnesses were disobeyed with no apology, excuse or leave from the Committee.
- 10.12 This attitude is a very serious matter. When senior public servants (particularly the Heads of Departments and, in the

case of Mr. Yer the Chief Accountable Officer to Government) treats a Parliamentary Committee with contemptuous disregard, the nation has a real problem requiring immediate redress.

- 10.13 As a matter of Law all public servants are required to give full, timely and responsive cooperation to this Committee – representing as it does, the National Parliament.
- 10.14 It is necessary to point out that the collapse of public accountability either occurred or continued during the period of appointment of these two Officers and they, more than anyone, would know why and how this happened – and how to address the problem.
- 10.15 Inquiries by the Committee to these Officers mainly concerned policies and plans to rebuild or reestablish our systems of national accountability. Evidence on these matters would have assisted the Committee enormously.
- 10.16 The attitude displayed by these and other Public Servants toward this Committee is, in our opinion, an excellent illustration of the degree to which the Public Service has become uncontrolled, unaccountable and seemingly immune to the processes of Law of and accountability for, the use and application of money entrusted to them.
- 10.17 This is a very serious development and one that this Parliament should no longer tolerate. In the opinion of the Committee the failure of accountability has nurtured and protected significant misuse and deviation of public monies by

Government agencies to the point where, in 2004, the accounts of the nation – the Public Accounts – had become unreliable, at best.

11 PARLIAMENTARY SCRUTINY OF THE 2004 PART TWO REPORT OF THE AUDITOR GENERAL.

- 11.1 Review of the Part Two Report of the Auditor General for 2004 by this Committee is the second level of assurance as to the standard, format and contents of the work of the Auditor General.
- 11.2 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.
- 11.3 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.
- 11.4 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.
- 11.5 These reports have not been made for some years due to the fact that the Public Accounts Committee was dormant until

2004 and the fact that the 2004 and 2005 Statements of Public Account were not made available or tabled in the National Parliament until 2007.

- 11.6 The Statement and intention of the framers of our ***Constitution*** was to provide for scrutiny of the control of public funds and to enable the Parliament to call for an account of any irregularities and defaults in the Report of the Public Accounts. This we have tried to do.
- 11.7 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.
- 11.8 The Reports of the Public Accounts Committee are then forwarded to the Secretary for Finance who should deliberate with Departments concerning the Committee suggestions and criticisms.
- 11.9 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.
- 11.10 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.

12 DUTIES AND FUNCTIONS OF THE DEPARTMENT OF FINANCE.

Duty to Keep and Submit the Public Accounts.

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

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

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

“Public Account” is defined as follows:

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

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

“Public Accounts”

- i) There shall be a Public Account for each of:**
 - (a) The National Government; and**
 - (b) A Provincial Government or a Local Level Government established under the Organic Law on Provincial Governments and Local Level Governments.**

- ii) A Public Account established by Sub-Section (1) shall consist of:**
 - (a) In the case of the National Government –**
 - i. The Consolidated Revenue Fund; and**
 - ii. The Trust Fund; and**
 - iii. In the case of a Provincial or Local Level Government –**
 - 1. A General Revenue Fund; and**

2. A Trust Fund."

- 12.4 Section 11 of the **Public Finances (Management) Act 1995** directs that the Public Account consisting of public monies, shall be kept in Banks which are approved by the Departmental Head of the Department responsible for financial management or in such a manner as the Departmental Head of that Department may direct.
- 12.5 This Committee concludes that Section 3 of the **Public Finances (Management) Act 1995** places responsibility on the Minister for Finance for the supervision of the finances of the Independent State of Papua New Guinea so as to ensure that a full accounting is made to the Parliament of all transactions involving public monies.
- 12.6 Under Section 3 (3) and (5) of the same Act, the Minister for Finance is required to cause the preparation of detailed statements of the receipts and expenditure of the Public Account for the fiscal year 2004 and send it to the Auditor General for the purpose of Audit.
- 12.7 Power to audit Departments of Government is vested in the Auditor General by section 3 (4) of the **Audit Act 1986** *which states:*
- "the Auditor General shall in such manner and at such times as he thinks proper inspect and audit all accounts that relate directly or indirectly to:**

(a) the collection, receipt, expenditure or issue of public monies or,

(b) The receipt, custody, disposal, issue or use of stores or other property of the State"....

12.8 Government Departments carry out these functions in the course of their daily activities.

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

12.10 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".

12.11 This Committee concludes that the Part Two Report of the Auditor General for 2004, shows serious failures in Departmental accounting, financial management, Trust management and fiscal reporting and reveals an almost

complete failure by the Department of Finance and every other agency of Government to keep or require to be kept, accurate or, in many cases, any records or accounts at all. This is an extremely serious matter.

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

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

13 OBLIGATIONS OF GOVERNMENT DEPARTMENTS AND AGENCIES TO THE PUBLIC ACCOUNTS COMMITTEE.

13.1 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)).

- 13.2 The responsibility of that Departmental Head is not derogated from or reduced by reason of any delegation of functions by him to another person.
- 13.3 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.
- 13.4 Moreover, the Secretary of the Department of Finance gave sworn evidence to the effect that he understood the statutory obligations imposed on him by the **Public Finances (Management) Act 1995** - which include cooperation and compliance with the Public Accounts Committee.
- 13.5 In his role of responsible Head of Department, the Secretary for the Department of Finance has the power to obtain full and free access at all times to all accounts and records of accountable officers that relate directly or indirectly to the collection, receipt, expenditure or issue of public money and the receipt, custody, disposal, issue of stores or other property of the State.
- 13.6 Time and again the Secretary made undertakings to this Committee to produce information or documents and failed to meet those promises. Time and again the Secretary failed to

answer questions or letters and treated this Committee and his duty to assist it, with disregard.

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

14 DUTY OF DEPARTMENTS AND OFFICERS TO THE OFFICE OF THE AUDITOR GENERAL.

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

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

15. EVIDENCE RECEIVED BY THE COMMITTEE.

- 15.1 The principal evidence received by the Public Accounts Committee was the Part Two Report of the Auditor General.
- 15.2 That Report was supplemented by oral explanatory evidence to the Committee by the Auditor General.
- 15.3 The Committee has given very careful consideration to the contents of the Report and accepts the Part Two Report of the Auditor General as it is presented.

- 15.4 The Committee received no evidence contradicting or qualifying the Part Two Report of the Auditor General in any respect.
- 15.5 The Part Two Report of the Auditor General was tabled in the National Parliament on the 8th April 2008. A copy of the Part Two Report of the Auditor General for the year 2004 is contained in Schedule 2 to this Report.

Other Submissions or Evidence Received from Witnesses.

- 15.6 A list of witnesses before the Committee is contained in Schedule 1 to this Report and submissions or letters received by the Committee are shown in Schedule 5.
- 15.7 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.
- 15.8 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.

- 15.9 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.
- 15.10 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.
- 15.11 The Committee intended this Report to be helpful, constructive and capable of assisting the National Parliament to identify problems and suggesting resolutions or solutions for those problems.
- 15.12 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.
- 15.13 Accordingly the Committee addressed open invitations seeking submissions or evidence to:
- all Governors of Provincial Governments;
 - all Provincial Administrators;
 - the Vudal University;

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

Copies of those letters are exhibited in Schedule 4.

15.14 The Committee issued Summonses or requests for information to the following persons or entities:

- the Secretary of the Department of Personnel Management;
- the Secretary of Treasury;
- the Secretary for Finance
- the Commissioner, Correctional Services;
- The Secretary Department of Agriculture and Livestock;

- The Secretary Department of Personnel Management;
- The Secretary Department of Education;
- The Secretary Department of Health.

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

- 15.15 The Public Accounts Committee received only three replies. The first reply was received from the Provincial Administrator of Sandaun Provincial Government and was helpful and timely. A copy of that letter is annexed to this Report – Schedule 5. We thank Mr. Joseph Sungi for his prompt and detailed assistance.
- 15.16 A letter of reply was also received from Ms Hitelei Polume-Kiele the Acting Solicitor General and Head of the Department of Justice and Attorney General. That letter was timely and helpful and a copy is annexed to this Report – Schedule 5.
- 15.17 A second letter was received from the Provincial Administrator of Manus Provincial Government and was helpful and informative – see Schedule 5.
- 15.18 To the surprise of the Parliamentary Public Accounts Committee, we received no information or evidence from the Department of Finance and very little of use from the

Department of Treasury, other Provincial Governments, Governors or Departments from which we invited responses.

- 15.19 In particular, letters to the Department of Finance were unanswered and requests for information to assist the Committee in its work were deliberately and intentionally ignored.
- 15.20 The Committee received no assistance from any academic institute or research institution or any other quarter.
- 15.21 The Public Accounts Committee sought submissions from the public, but received none.
- 15.22 In an effort to identify the daily problems that might have led to the collapse of Departmental accountability and financial management, the Committee summoned the Heads of the five worst performing Departments (identified from the matrix attached to the 2004 Part 2 Report of the Auditor General) and sought a clear statement from them of the problems within their Departments.
- 15.23 The evidence was helpful and we will address it later in this Report.
- 15.24 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.

16. THE INQUIRY .

- 16.1 On the 4th December 2007 the Public Accounts Committee convened an Inquiry into the Part II Reports of the Auditor General for the Financial Year 2004.
- 16.2 The Public Accounts for the year 2004 were disclaimed by the Auditor General as being unreliable (at best) and not properly, fully and truthfully reporting the financial status of the Government of Papua New Guinea.
- 16.3 One of the principal reasons for that disclaimer was a failure across the entire span of all Government Agencies and entities (at every level of Government in Papua New Guinea) to make, keep, maintain or submit proper, lawful and reliable financial statements, accounts, records or, in some cases, any documents at all.
- 16.4 In the course of that Inquiry it became clear to the Public Accounts Committee that National Government Departments had failed for many years to comply with the terms of the **Public Finances (Management) Act 1995**, the **Financial Instructions** and/or the Constitutional requirements for accounting for the use of public money.
- 16.5 This collapse of public fiscal management and accountability is a matter of first national importance.
- 16.6 The reputation of Government and of the State of Papua New Guinea is very largely dependant on the quality of fiscal management and accountability demanded by Government.

- 16.7 Further, the Social and Political Contract between the Government and the citizens of Papua New Guinea demands that public monies will be properly managed and applied to the benefit and betterment of the people who are governed.
- 16.8 Failure of accountability and management of public monies by Government Agencies is a direct breach of the Constitution and has led to a failure of service delivery and the development in Papua New Guinea.
- 16.9 This Committee has received evidence of large scale defalcation, misappropriation and fiscal misconduct by senior (and not so senior) Public Servants. This has occurred since 2002 and involves huge amounts of public money which should have been applied to other appropriated areas.
- 16.10 Parliamentary appropriation is ignored and changed, seemingly at will, by Public Servants who have no power to do so.
- 16.11 Even when money is appropriated into proper Trust Accounts the quality of Trust Management is virtually non-existent and monies are often not applied to those developmental purposes for which they are appropriated.
- 16.12 The level, quality, pervasiveness and extent of intentional mismanagement and deliberate overriding of controls and lawful requirements, is a matter of very profound concern to this Committee and should be to the National Parliament.

- 16.13 Our Inquiries uncovered a deeper element to this misconduct and failure. There is a very real shift of sovereign power from the Executive and the Parliament to unelected and unrepresentative Public Servants who have no right to exercise the power which they do.
- 16.14 Clearly these Officers act with complete impunity and immunity and divert, misappropriate and mishandle public monies as an almost daily event.
- 16.15 Although this Report deals with the Financial Year 2004, material before this Committee has clearly shown that the quality of the failure continues to the present day.
- 16.16 In the course of our Inquiry into the Part Two Reports of the Auditor General the Public Accounts Committee summoned Secretaries of the worst performing Departments identified by the Auditor General.
- 16.17 The intention was to ascertain the reasons for the failure and to understand why the state of affairs has arisen. We will address this evidence in the course of this Inquiry.
- 16.18 This Report consists of three (3) Parts.
- 16.19 **PART 1**
A review of the evidence received from the Auditor General and the Part II Report of the Auditor General from the Fifth Financial Year 2004.

16.20 **PART 2**

A recital and analysis of the evidence received by the Public Accounts Committee from the Heads of certain Departments including and in particular the Departments of Finance and Treasury.

16.21 **PART 3**

Analysis and recommendations arising from the evidence received by this Committee.

Part 1: The evidence received by the Committee from the Auditor General:

16.22 The Auditor General gave oral evidence to the Committee. This evidence was unsworn.

16.23 The evidence accepted by the Committee shows that the Auditor General is required under the provisions of Section 214 of the Constitution to inspect and audit at least once in every fiscal year and to report to the Parliament on the Public Accounts of Papua New Guinea. The Reports of the Auditor General for the Financial Year 2004 were delivered in four Parts. Part 2 of those four Reports concerned Audits of National Government Departments and was completed on the 14th June 2006 and tabled in the National Parliament on the 8th day of April 2008.

- 16.24 Government Departments or Agencies deliver essential services from the Government to the people of Papua New Guinea.
- 16.25 The Auditor General directed his attention to internal controls, further examinations that he considered necessary and assessments of the performance of the fiscal operations of those National Government Departments.
- 16.26 The intention of each Audit was to assess the reliability and integrity of financial data and other information produced and to determine the extent of compliance with the applicable laws, regulations and directions.
- 16.27 The Audit procedures applied were intended to also reveal system weaknesses that if not rectified, could result in losses or errors, fraud or mismanagement of public funds.
- 16.28 In 2004 the Auditor General announced his intention to table separate Reports on the Department of Defence, the Department of Works and Implementation, the Bureau of Customs and Excise, Public Service Commission and Foreign Affairs. Those Agencies do not form any part of this Report.
- 16.29 The Auditor General made special mention of the revised appropriations in the Financial Year 2004.
- 16.30 During 2004 the net transfers of the appropriations totaled K 596.611 million for recurrent expenditure, which exceeded

the amount authorized by the Parliament by K 278.489 million – resulting in a significant legal breach.

- 16.31 The exact reasons for this revised appropriation and who made the decision remains unknown. We have addressed the matter in our Part I Report for the Financial Year 2004, to the National Parliament.
- 16.32 However, it is clear that no Authority was provided by the ***Appropriation (National Development Expenditure 2004) Act 2003*** to transfer appropriations between Agencies. Despite this, K96.237 million of transfers occurred.
- 16.33 We now address the contents of the Part II Report of the Auditor General for the Financial Year 2004.
- 16.34 We intend to examine each National Government Department the subject of Audit and Report and to summarise the findings of the Auditor General.

NATIONAL PARLIAMENT.

- 16.35 The Constitution provides that there will be a Parliamentary Services separate from other services, administered by the Clerk of the National Parliament and under the control and direction of the Speaker.

16.36 This basic function of the Service is to provide staffing, maintenance, security and advisory services to the Speaker, Committees and Members of the Parliament other than Ministers.

16.37 The Service also maintains a Parliamentary Reporting Service and other staff and facilities as may be required.

16.38 The Auditor General made the following findings:

- There were shortcomings in the accounting of stale cheques pertaining to the operating accounts.
- There were weaknesses in the operation of the Imprest Account.
- There was non-compliance with procurement and payment procedures.
- There was non-rendition of salaries and wages records.
- There were deficiencies in asset management.
- There were inadequate controls over payment, recording and acquittal of advances.
- There were losses and deficiencies not recorded.
- There was shortcoming in consultancy payments.

- 16.39 These matters were referred to the Clerk of the National Parliament for comment but no response was received at the time of the writing of the Part Two Report in October 2005.
- 16.40 There were outstanding matters which from previous Audit Reports that remained unresolved. They were:
- No prompt clearance of stale cheques;
 - Deficiencies in procurement and payment procedures;
and
 - Inadequate control over the management of advances.
- 16.41 This Committee commenced an Inquiry into Parliamentary Services in 2006 but the Clerk of Parliament refused to appear or to assist the Committee in any way.
- 16.42 It is our belief and finding that there was mismanagement of public funds within the Parliamentary Services and this is a matter of significant National importance and concern.
- 16.43 The National Parliament should set the example for all other Agencies of Government but regrettably has failed in this regard.

OFFICE OF THE GOVERNOR GENERAL.

16.44 The Auditor General conducted a review of internal controls and undertook, on a sample basis, reviews of petty cash, drawing account, commitment controls, procurement and payment procedures, salary and wages, advances, stores and assets and losses and deficiencies.

16.45 The Auditor General found significant defects and failures and a summary is as follows:

- Account of petty cash revealed a small shortfall;
- Review of the drawing account showed inordinate delays in the preparation of monthly bank reconciliations and stale cheques included in the unrepresented check listings dated the 18th May 2005.
- An examination of commitment control ledgers showed significant variances between Expenditure Vote Summary printouts maintained by the Office of the Governor General against an Expenditure Statement maintained by the Department of Finance.
- The Expenditure Statement produced by the Department of Finance revealed over-expenditures in excess of Warrant Authorities in an amount of K142,466.
- An Advance Register maintained by the Office show cash advances totaling K 30,154 were either registered or

acquitted and this revealed a serious weakness in the internal control.

- Two Officers were issued additional advances totaling K 23,677 while previous advances remained unacquitted.
- Outstanding Advances could not be determined as the acquittal forms were not produced.
- An amount of K 428,176 was processed and paid for a trip to London during the year under review without the General Expense form being approved by a Financial Delegate.
- The required submissions on approvals were not obtained prior to purchase of assets.
- Assets were erroneously charged to other expenditure vote items instead of appropriation Item 221.
- Audit could not verify payment made under Item 221 as payment vouchers were not on file.
- Audit could not verify the physical existence of all assets.
- There was significant shortcoming in procurement and payment procedures. 190 payments were erroneously charged to incorrect expenditure vote items and poor and inadequate record keeping and failure to obtain approvals in accordance with law were evidenced throughout the year.

- There are significant weaknesses in the payment of salaries and wages including failure to deduct leave fare deductions, payment of recreational travel for persons who did not qualify and shortfalls in the previous year's adjustments.
- Weaknesses in transport management and significant weaknesses in internal controls including:
 - Lapses in the control of the disbursement of advances.
 - Advance Register not updated.
 - Prior approval from PTB not obtained for private hire.
 - Transport fleet register not provided for Audit.

16.46 Once again, the Auditor General found outstanding matters from previous Audit Reports that have not been resolved and these closely mirrored the failures found in 2004.

16.47 Clearly the Report of the Auditor General, the management letters from his Office and his recommendations have been ignored.

DEPARTMENT OF PRIME MINISTER AND NATIONAL EXECUTIVE COUNCIL

16.48 The Audit of the Department included checks of drawing accounts, procurement and payment procedure advances,

salaries and wages, losses and deficiencies, fixed assets and internal audit. A review of internal controls was also undertaken and the following areas of weakness were identified:

- Weaknesses in procurement and payment procedures;
- Weaknesses in payment of salaries and wages;
- Weaknesses in the payment and acquittal of advances;
- Weaknesses in asset management;
- Significant weaknesses in the area of deployment and retainer and payment of consultants in the sum of K 1,449,166.
- Progress Reports were not furnished to the Auditor, Consultancy Agreements were not provided,
- Consultancy Agreements were not signed by both parties and the only excuse tendered by the Department was that of "Strict Confidentiality".

16.49 This Committee does not accept that reasoning. These and all other documents are to be made available to the Auditor General when he demands them.

16.50 We do not understand why the Auditor General does not either summon the material or prosecute those officers who

do not provide documents and records when requested to do so.

16.51 There are significant control weaknesses including:

- Records of losses and deficiencies of public monies, assets and property not properly maintained;
- Stale cheques not adjusted;
- Reimbursement from Waigani Public Accounts representing direct credits were not recorded in the Cash Book prior to the preparation of a Bank Reconciliation;
- Three quotations were not obtained in some instances for procurement of goods and services;
- Payments inclusive of GST were processed and paid to various suppliers without invoices showing GST registration number;
- Prior approval for and endorsement to engage casual employees was not obtained.
- Acquittal forms were not duly approved by authorized financial delegates.
- In common with all other Departments which is the subject of the Report by the Auditor General, the Department of Prime Minister and NEC failed to address outstanding matters from previous Audit Reports and

these very closely mirror the same defects and failures identified by the Auditor General in 2004.

- There is no point in the Auditor General performing an Audit unless the Agencies involved are prepared to read, understand and remedy the defects found by the Auditor General.

DEPARTMENT OF FINANCE.

16.52 The Department of Finance has been one of the worst performing Departments of them all.

16.53 It is completely unacceptable the very Department responsible for managing Policies, Regulations and Laws relating to collection and disbursement and accounting for public monies should be unable to either conduct its own affairs lawfully or manage trust monies and public monies in a lawful and proper fashion.

16.54 The very Department which should be setting the example for all other Departments and Agencies had completely failed in its duties under the ***Public Finances (Management) Act 1995*** and the ***Financial Instructions*** as we have outlined in our Report into the Part I Report of the Auditor General for the Financial Year 2004 and 2005.

16.55 The Audit of the Department was carried out on a sample basis and covered in examination of the Drawing Account, procurement and payment procedures, acquittal of advances,

motor vehicle fleet, Salaries and Wages payments and journal entries.

16.56 The Auditor General identified significant weaknesses and failures in the Department. This included:

- Bank reconciliation statements prepared as at the 31st December 2003 showed numerous amounts concerning reconciling items dating as far back as the 2nd March 2002 that require investigation, clearance and adjustment in the Cash Book. In other words, these accounts were not properly and professionally presented and this is not acceptable.
- Non-compliance with procurement and payment procedures was evident.
- An examination of the Advances Register, Payment Vouchers, Acquittal Forms and other related documents relating to Cash and Travel Advances revealed irregularities and weaknesses – in particular, the failure to require acquittal of payments and advances.
- Motor Vehicles were not sighted or produced and vehicles purchased were not recorded in the Fleet Register.
- The Asset Register was not updated or maintained in a proper fashion.

- There were significant weaknesses in the Salary and Wages payment and recording;
- Examination of Journal Entries revealed 161 Journal Entries that were not sighted in the Journal Entry Book and a Journal Transaction of K 1,850,000 was not verified by the Authorizing Officer prior to posting.
- All these matters were referred to the Secretary of the Department but no response was received at the time of the writing of the Part II Report for 2004 – in October 2005.
- Subsequent investigation of the Department of Finance has revealed much deeper and more serious failures and intentional misappropriation and defalcation by Officers of that Department.
- The 2005 Part Two Report was more detailed and searching but clearly the Department of Finance has problems recording its own internal financial affairs in 2004.

CORRECTIVE INSTITUTIONAL SERVICES

16.57 The Auditor General conducted an Audit of Corrective Institutional Services on a sample basis including examination of revenues, expenditure controls, drawing account, procurement and payment procedures, assets, advances, training college bank accounts and internal audit together with a review of internal controls.

- 16.58 The quality of record keeping by this Service was very poor. In particular, the Auditor General reports:

Revenue

- The Auditor was unable to confirm total revenue due to non-availability of revenue records. The file containing all revenue records including Department of Finance Revenue Statement printouts have gone missing after the former Accountant was suspended from duty for alleged misconduct in March 2005.

This pathetic excuse would be comic were it not so serious. For the very service whose only purpose is to secure prisoners to be unable to secure their own internal records, is disgraceful.

- The Auditor could not examine records of commitment control such as Warrant Authorities, Cash Fund Certificates, the General Ledger and other related records for the same reason. The Auditor General demanded a Report of Total Expenditure incurred by the Department but no response was received at the time of the writing of the Report for 2004.
- There are significant weaknesses in the management of the Drawing Account including failure to write back un-presented and stale cheques, failure to maintain entries in the Cash Book and a number of other serious defaults.

- An examination of paid vouchers revealed numerous defects and flaws in the management of payments and expenditure.
- There has been no stock take or fleet register maintained.
- Undated and incomplete stock take sheets were provided to the Auditor General for a number of penal institutions and this default is not acceptable.
- An examination was made of the Central Armoury and the Auditor General reports that no proper register is maintained to record ammunition purchased by the Department.
- Stock Card records are out of date and the true stock on hand figure could not be established. The records which were produced revealed failures to record an update of the armoury records.
- Advances, management and records were not maintained in proper form.
- Six different bank accounts were identified that were not approved by the Department of Finance and, as the Auditor General reports:

"In the absence of approvals, the opening and operation of the above accounts are illegal and seriously in breach of the Public Finances (Management) Act."

- The Internal Audit Division has one Auditor and despite the identification of four individual illegal misappropriations only one was furnished to the Auditor General.
- Weaknesses in internal control were noted in almost every aspect of internal management and financial control.
- A Management Letter was sent to the Commissioner but no responses had been received by December 2005.
- Once again, the Service shows unaddressed outstanding matters from previous Audit Reports as does every other Department and Agency of Government.

TAXATION OFFICE

16.59 The Auditor General conducted a reasonably detailed Audit into the Taxation Office in 2004.

16.60 He found:

- Under-collection of Revenue against Estimates which constituted a significant variance from Estimates. This indicates that unreliable performance indicators were used in the forecast rendering the revenue projections unrealistic.
- Dishonored cheques totaling K2,228,545 were received. The Refund Drawing Account Cash Book had an

overdrawn balance of K3,383,815 representing un-presented refund cheques. No details were available to the Auditor and he was not satisfied that the Cash Book reflected an accurate balance.

- Direct Tax Collections were in arrears. Outstanding legal action dating back to 1996 were unresolved.
- There were significant losses through bad debt write offs totaling K 2,744,346 but the approval granted for write off of tax arrears totaling K 355,722 was not sighted.

16.61 Like all other Departments, the Taxation Office had outstanding matters from previous Audit Reports that had not been attended to and these are exactly the same as the weaknesses and deficiencies reported in the 2004 Part Two Report.

16.62 It is clear that even in an entity as large and as well resourced as the Taxation Office the reports, criticisms and recommendations of the Auditor General were ignored or not understood.

DEPARTMENT OF PERSONNEL MANAGEMENT

16.63 The Department exists to support and facilitate the implementation of Public Services Personnel Management Policies and Practices.

16.64 The Auditor General conducted an Audit on a sample basis covering commitment controls, Drawing Account, procurement and payment procedures, consultancy, advances, assets, salary and wages and journal entries and included internal Audit functions and internal control systems in its examination.

16.65 The Auditor General found that very similar weakness as he has found in every other Department, viz:

- Weaknesses in commitment control procedure.
- Deficiencies in the Drawing Bank Account.
- Bank statements disclose many reconciling items with balances which dated back as far as 2002 requiring investigation, clearance and adjustment. The Auditor General concludes:

"The discrepancies noted above reflect inefficiencies in accounting and avoidable accounting errors. These could facilitate fraud and also render the reconciliation statements unreliable".

Irregularities in Procurement and Payment Procedures

- As with every other Department or Agency of Government procurement requirements were not complied with, documents were not provided to the

Auditor General, records were not kept, quotes were not received or sought, paid vouchers are missing and record keeping and accounts are of very poor quality.

- Once again, the Auditor General concluded:

"The above discrepancies show that payments were made without proper checks and required documentation and could facilitate fraud and misuse of public funds".

- Advance Registers were not maintained properly and were incomplete.
- Advances were not reported in the Register and cash payment advances paid to the Paymaster were not recorded in the Register at all. The acquittal of these advances is unknown as no relevant documentation or assistance was given to the Auditor General.
- Motor Vehicles purchased at a cost K 621,142 were recorded at a book value of K 134,157. This is not acceptable.
- Nine Consultants were retained by the Department in 2004 at a total cost of K 7,064,164. A total amount of K 672,577 was paid to Consultants for advising the Department on the "Pineapple Building" but no tangible development has ever taken place.

- Significant weaknesses were exhibited in the area of Salary and Wages.
- Journal Entries were not posted on a timely basis or, in many cases, at all.

16.66 Again, we see unaddressed outstanding matters from previous Audit Reports which are very similar to those identified for other Departments and Agencies and almost identical to the defects discovered by the Auditor General in the Department of Personnel Management in 2003.

MAGISTERIAL SERVICES.

16.66 The Audit of Magisterial Services was undertaken in the same way as previous Departments and included an Audit of the systems of internal control.

16.67 The Auditor General found:

- Numerous uncleared reconciling items in the Bank Reconciliation Statement and considerable weaknesses in the management of the Drawing Account. This is very basic accounting procedure and should not have occurred.
- Unreconciled expenditure statement and outstanding commitment. The Department records do not comply with the records maintained by Department of Finance and do not reflect correct balances.

- There were very significant failures in the area of procurement and payment procedures. There would appear, in fact, to be virtually no control within the Department over the methods and systems of procurement and the Auditor General comments as follows:

"An examination of vouchers and other related records and documents revealed:

- ***The Department has no proper system in place for the evaluation and awarding of repair and maintenance work;***
- ***Work Progressive Reports and Work Completion Certificates were not sighted to suggest satisfactory completion of the works paid for;***
- ***Inspection Reports for Completed Works were not done by competent technical officers;***
- ***In almost all cases the Certificates of Completion and Inspection Reports were carried out and issued by Officers who were involved in contracting out jobs to private and individual contractors.***

- ***There were further significant weaknesses and failures in the area of Salaries and Allowances. Apparently little control or management expertise in the area of salaries.***
- ***As in all other Departments and Agencies Advances were poorly maintained and recorded. Two hundred and fifty two travel advances remained outstanding as of the 31st December 2004 and 32 Officers were given fresh advances while their previous advances remained outstanding.***
- ***The 2004 acquittals had apparently been misplaced and this excuse is completely unacceptable.***
- ***The Asset Register maintained by the Department did not contain Asset identification numbers, physical verification, and responsibility for custody, serial numbers of assets or date purchased or the cost of assets. The Department did not carry out any periodic or annual stock take.***
- ***The Fleet Register was deficient and the status of eight motor vehicles was not indicated in the Register.***
- ***There are certain weaknesses and failures in journal entries notably that the raising of***

journal entries was done by Officers also involved in the posting of the journal entries into the Computer. This is not acceptable.

- ***The Internal Audit Unit failed to address or return the questionnaire from the Auditor General at the time of the Audit. A proper evaluation of the operation of the Internal Audit Unit was therefore not possible”.***

DEPARTMENT OF THE ATTORNEY GENERAL

- 16.68 The Public Accounts Committee has initiated an Inquiry into the Department of Justice and the Attorney General and will conduct this Inquiry in 2009.
- 16.69 The Department of Attorney General is responsible for ensuring that the administration of law is properly carried out, that proper and timely settlement of disputes occurs but, more importantly, to provide legal advice to all arms of Government and a number of Government Agencies including the Legal Training Institute, the Law Reform Commission, the Solicitor General’s Office and all Courts in the National Judicial system.
- 16.70 This Department should therefore lawfully and properly maintain its fiscal records and accountability as an example to the rest of the Public Service.

16.71 Regrettably, the Auditor General finds considerable weaknesses and shortcomings in this Department.

16.72 A summary of those findings as follows

- No expenditure statement was made available for the Auditor General and the Auditor was therefore not able to perform a comparative analysis of the Department's expenditure vote summary printout against the Department of Finance Expenditure statement. This is a serious matter. Lack of control over expenditure by agencies characterizes fiscal mismanagement in Papua New Guinea and has been the subject of considerable report by the Auditor General in his Part I Reports for the Years 2004 and 2005.
- Bank reconciliations were inaccurate and unreliable and significant sums of money were either not recorded or incorrectly recorded in the cash book prior to the preparation of bank reconciliations.
- The Auditor General examined procurement and payment procedures on a sample basis and found considerable failure to comply with the legal requirements for these matters.
- The Asset Register was incomplete and had not been updated. Six Departmental Motor Vehicles did not display Government plates as required, no application to the Superintendent of Motor Traffic for dispensation to

use private plates was produced and this particular matter attracts adverse comment in 2003.

- Advances were a matter of significant weakness. Destinations and type of advances were not specifically clear and in 35 instances there was no acquittal of advances.
- Weaknesses in Internal Control were identified as follows:
 - Stale cheques were fraudulently cashed;
 - Requisition forms were not approved by the Section 32 Officer.
 - Plant and Transport Board endorsement and approval was not obtained for the hire of motor vehicles.
 - Fuel usage register was not in place.

16.73 No response had been received from the Secretary of the Department at the time of the preparation of the Auditor General's Report.

16.74 Once again, this Department had failed to address matters identified in previous Audits and these deficiencies were virtually identical to the continuing problems in 2004.

OFFICE OF RURAL DEVELOPMENT AND DEPARTMENT OF NATIONAL PLANNING AND MONITORING

- 16.75 The Public Accounts Committee has conducted a lengthy Inquiry into both these entities in 2006 and we direct the National Parliament to the contents of our Report on identities which was tabled on the 30th day of November 2007.
- 16.76 In short, both the Office of Rural Development and the Department of National Planning and Monitoring were found to be incapable of managing their own internal fiscal affairs and quite incapable of managing development budgets.
- 16.77 Detailed recommendations and resolutions were made by the PAC and that Report is available to all Members of the National Parliament.

DEPARTMENT OF LABOUR AND INDUSTRIAL RELATIONS

- 16.78 The Department of Labour and Industrial Relations is a very large Department which manages 16 Acts of Parliament and a number of other Regulations and NEC Directives.
- 16.79 The Auditor General conducted a reasonably detailed Audit of this Department, having found a number of defects in internal controls in 2003.
- 16.80 The Auditor General's findings in 2004 may be summarized as follows:

- The Department exhibited shortfalls in revenue collections.
- Weaknesses in commitment controls.
- Shortcomings in the preparation of bank reconciliations. Reconciliation of bank accounts as a fundamental tool which is carried out on a daily basis by private business that appears to be beyond the resources of almost all agencies of Government.

The Auditor noted that no attempt was made to reconcile the Drawing Account which remained in arrears until May 2005 and requests for reconciliations were ignored. This is completely unacceptable.

- No response to the questionnaire for Trust Accounts. The Management of Trust Accounts is a matter of profound concern to this Committee. By 2004 there appears to have been a complete collapse in the management of Trust Accounts across almost all of Government. We have addressed this issue in a separate Report to the National Parliament and we commend this Report to all Members.

Shortcomings in Procurement and Payment Procedures

16.81 Government agencies persist in deliberately refusing to comply with the Law of Procurement and Payment. This is

not acceptable conduct and must be addressed as a matter of urgency.

- 16.82 As with the Department of Labour and Employment, many of the failures relate to the hire of motor vehicles from private organizations without approval, with no proof and with incorrect charging of purchases to vote items, Ministerial hire of motor vehicles and contracts or consultancies which were given without any or any proper review or approval processes.

Weaknesses in asset management.

- 16.83 As with all other Government agencies Asset Registers were not maintained or were incomplete. This is a simple accounting task which can be performed by a relatively junior clerk.
- 16.84 The fact that the Department of Labour and Industrial Relations could not maintain these registers is a matter of concern to this Committee and should be a matter of concern to the National Parliament.

Deficiencies in management of advances

- 16.85 As with almost all other Government Agencies advances are unacquitted, further advances are given while previous advances remain either unpaid or unacquitted, records are

lost and delays in the acquittal of travel advances were evident.

- 16.86 No response was received to a Losses and Deficiencies questionnaire. The Auditor could not therefore examine the extent of losses and deficiencies.
- 16.87 Failure to co-operate or give assistance to the Auditor General is a very serious matter and constitutes a breach both of the ***Public Finances (Management) Act 1995*** and the ***Audit Act 1986***.
- 16.88 We expect the Auditor General to prosecute in these circumstances or to use his coercive powers to force compliance from Government Departments.
- 16.89 Weaknesses in internal controls were identified as follows:
- Payments were made without invoices.
 - Payments made based on quotations.
 - Requisitions not signed by financial delegates.
 - Payments made based on photocopies of proforma invoices;
 - The Asset Register was not maintained properly.

16.90 Despite these serious findings and a management letter to the Secretary of the Department, no response was received at the time of the preparation of the Report of the Auditor General.

16.91 As with all other Departments weaknesses reported in previous Audits remain unresolved and apparently unaddressed.

DEPARTMENT OF PROVINCIAL AND LOCAL LEVEL GOVERNMENT AFFAIRS

16.92 The performance of this Department was particularly poor.

16.93 The summary of the adverse findings of the Auditor General is as follows:

- There were significant shortfalls in revenue collection.
- There were deficiencies in the maintenance of the drawing account.
- Bank Reconciliations were in arrears for eight months and the latest statement made available to the Auditor General was for the month of August 2004. The Auditor General concluded:

"Audit noted that no attempt was made by the Department to compile the required bank

reconciliation statement as was indicated in the long delay in the preparation of the Statement. The Department has been noted to be grossly in breach of the Public Finance (Management) Regulations which stipulates that Bank Reconciliation Statements must be prepared regularly on a monthly basis”.

Lapses in commitment controls

- 16.94 Once again the Audit noted that Departmental records are not reconciled monthly with the Department of Finance records and found that expenditure and commitment accounting was unreliable and contains significant variances with the records maintained by the Department of Finance.
- 16.95 Failure to comply with procurement and payment procedures were evident. The Auditor General has recorded three pages of these failures.
- 16.96 Significant amounts of money were expended without compliance to the lawful requirements for procurement and payment. Indeed, this Committee concludes that there is virtually no control over such matters within the Department.
- 16.97 There are weaknesses in the payment of salaries resulting in over and underpayments and record keeping was poor.

- 16.98 The same problems exist with salary advances. The Department did not maintain a salary advance register at all and salary advances were not recorded.
- 16.99 There were considerable weaknesses and failure to keep records in respect of advances for such things as travel and other allowances. Acquittals did not occur and advances were made when outstanding previous amounts were unpaid.
- 16.100 The Department maintained no updated asset register and assets purchased during the year were not recorded in the Register.
- 16.101 The same problems exhibited by all other Departments in respect of motor vehicle allocation existed in this Department.
- 16.102 There were considerable problems with Journal Entries. Ninety six percent of all Entries raised were not signed as proof of the transactions been verified and certified. Record keeping and retention of evidence was poor.
- 16.103 The Trust Account Questionnaire issued to the Department on the 25th May 2005 was not completed at the time of the preparation of this Report in July 2005. Trust Account Audit was rendered impossible. This is a very serious failure and it exists in all Departments and Agencies of Government.
- 16.104 A Losses and Deficiency Questionnaire was not returned at the time of the Audit.

- 16.105 Mismanagement of monies paid to the National Disaster and Monitoring Office was in evidence. Reliance could not be placed on the internal controls and operation in the disbursement and acquittal of these monies. The Provincial Disaster Offices did not submit documents and records after receipt of the funds. The Department was quite unable to ascertain whether the funds have been disbursed, utilized or what has happened to them.
- 16.106 Very serious weaknesses were identified in internal controls within the Department. These all relate to the failure to keep proper, lawful, timely and updated records and such failure is simply not acceptable in a major line Department of Government.
- 16.107 To compound the problems identified there was no response from the Secretary of the Department to the Management Letter from the Auditor General as of the preparation of the Auditor's Report in October 2005.
- 16.108 Finally, this Department appears not to have addressed or resolved outstanding matters reported by the Auditor General in his Report for 2003.

DEPARTMENT OF EDUCATION

- 16.109 This Committee appreciates that the Department of Education is a very large Department with very wide responsibilities and duties.

- 16.110 In our opinion this is all the more reason why the accounts and record keeping within the Department should be of a very high standard.
- 16.111 The Auditor General has identified the following defects in the systems:
- Weaknesses in commitment control.
 - Non-maintenance of the drawing account.
- 16.112 Once again this Department which employs hundreds of officers has failed to reconcile bank accounts after August 2004. Failure to perform basic accounting practice, cannot be excused.
- 16.113 The procurement and payment procedures were not complied with.
- 16.114 Asset registers were not maintained, no stock take was performed, inaccurate and incomplete records were kept, and insufficient information was contained in the defective Asset Register which did exist.
- 16.115 School Fee Subsidy Reports were not provided or did not exist. School subsidies granted throughout the period under review have not been brought to account and remain outstanding.
- 16.116 Maintenance of school fee subsidy records was poor and important information such as payment date, cheque number

and the amount of the payment were not recorded. So defective were the records that audit could not determine the difference between amounts paid and the amounts acquitted.

- 16.117 Significant problems existed with the control of advances – particularly travel and cash advances.
- 16.118 Journal Entries recording transactions totaling K36,446,574 revealed an entry of one not verified or certified and a total of K589,992 was simply not posted. This is completely unacceptable.

Losses and deficiencies

- 16.119 No proper controls were in place in regard to the collection of Salary cheques and it is a telling statistic that 17 instances of forgery and fraudulent negotiation of salary cheques were detected in one year. This clearly shows significant problems with internal controls and oversight.
- 16.120 In October 2005 there had still been no response received from the Department of Education to the findings of the Auditor General.

OFFICE OF HIGHER EDUCATION

- 16.121 The Report of the Auditor General on the Office of Higher Education shows identical weaknesses and defective practices as were found in the Department of Education. Inaccurate and incomplete Bank Reconciliations were found.

- 16.122 There was a serious problem identified in the Management of the Tertiary Education Study Assistance Scheme Trust Account.
- 16.123 This Trust Account was established in 2000 but for the four years of its existence no Bank Statements, Bank Reconciliation Statements or Trust Account Reconciliations were made available to the Auditor General and there was no evidence to indicate the implementation of rules in the payment of loans or collection of the loans by Internal Revenue Commission.
- 16.124 Indeed, there was absolutely no evidence to show that the Trust Instrument had been complied with in any regard.
- 16.125 The Auditor General sought an explanation from the Department on action taken to recover loans but no report or reply had been received at the time of the preparation of the Auditor's Report.
- 16.126 No response has been received from the Director General of the Office of Higher Education to the Management Letter from the Auditor General as of October 2005.
- 16.127 Clearly there are significant problems within the Office of Higher Education – but these problems and failure to address them are the same as those which exist in all other Government Agencies.

DEPARTMENT OF HEALTH

16.128 This Committee considers that the Department of Health is a crucially important agency of Government having responsibility for the management of hospitals, health services, medical training and all other aspects of the physical and mental wellbeing of our citizens at every level of Government.

16.129 The Auditor General found considerable weakness and failure within the Department as follows:

- There were shortcomings in revenue records;
- Bank Reconciliation Statements disclosed reconciling items dating back to 1998 which needed to be investigated, cleared and adjusted.
- Records pertaining to the drawing account were incomplete and not updated and the quality of accounting and record keeping was extremely poor. The Auditor General has concluded that these weaknesses were so pervasive that:

"The accumulation of uncleared and unchecked reconciling items could lead to fraud and malpractice".

Commitment control and expenditure statement

- 16.130 Commitment control and expenditure statements were incomplete and not updated and so poor was the record keeping that according to the Department of Finance Expenditure Statements funds totaling **K 642,462,300** were not expended at all during the 2004 Financial Year.
- 16.131 Departmental records recorded an under expenditure of K 71,217,099 when compared to the Expenditure Records of the Department of Finance. There is obviously a serious problem with accounting and these very large sums in such an important Department are a matter of real concern.
- 16.132 The Department failed on numerous occasions to comply with procurement and payment procedures.
- 16.133 Most importantly, the Department transferred a total of K 79,466,778 of unexpended funds to three Trust Accounts. However, no records at all were produced to the Auditor General although he asked for them, in respect of these Trust Accounts. No audits of the Trust Accounts containing a very significant amount of money can be made.
- 16.134 This is intentional and deliberate obstruction of the Auditor General and this Committee expects the Office of the Auditor General to either prosecute or exercise its coercive powers to ascertain either the documents or all the evidence which should be in them.

- 16.135 A total of K 62,945,647 was paid as Grants to 893 Organizations. However, accountability statements for these Grants and Subsidies were not made available to the Auditor – although he requested them.
- 16.136 This is completely unacceptable and once again we recommend that the Auditor General use his coercive or prosecutorial powers to enforce delivery of this material.
- 16.137 Weaknesses were shown in advances and management of Salary and Allowance Advances.
- 16.138 Motor Vehicle Registers and Management was poor or non-existent.
- 16.139 Once again, the Department failed to respond to a Management Letter from the Auditor General as of October 2005 and failed to address outstanding shortcomings identified in the 2003 Report of the Auditor General.

DEPARTMENT OF HOME AFFAIRS, YOUTH AND WOMEN

- 16.140 Virtually the same shortcomings were exhibited by this Department as all other Departments and Agencies of Government. There were significant problems in the following areas:
- The preparation of drawing account bank reconciliation. These reconciliation statements were delivered to December 2004 but disclosed reconciling items with uncleared balances dating as far back as 1996. Clearly

there has been no follow up action for eight years and this is not acceptable.

- Credits in the Bank Statement which were not reflected in the Cash Book totaled K9,057,307 for the period October 2000 to December 2004.
- Unpresented cheques were recorded relating to the period 1996 to 2003 but no action had been taken to write back the value of such cheques. These have contributed to an overdrawn closing cash book balance of K6,258,207.
- Expenditure was not controlled and a significant variance of K20,630,956 existed between the records maintained by the Department and the Expenditure statement produced by the Department of Finance. Exactly the same weakness was identified in 2003 but had clearly not been addressed.
- Weaknesses and failures in the area of payment of accounts were identified.
- Weaknesses in record keeping and management of salary and wages were identified.
- Significant weaknesses in the Management and Custodianship of fixed assets were found by the Auditor General – in particular the Asset Register was incomplete with no record of assets purchased prior to 2004.
- Management of advances was weak or, in some cases, non-existent.

- 16.141 The Internal Audit Unit was non-functional and a questionnaire delivered by the Auditor General to the Internal Audit Unit was returned incomplete. Information on that questionnaire could not be substantiated in the absence of relevant reports and information.
- 16.142 So basic was the failure that the Auditor General could not determine whether the Internal Audit Unit had a manual of procedures and guidelines.
- 16.143 Once again, no response has been received to the Management Letter from the Auditor General as at October 2005.
- 16.144 Further, there were significant outstanding matters from the 2003 Audit which have not been addressed and which were remarkably similar to the failures which were exhibited in 2004.

DEPARTMENT OF ENVIRONMENT AND CONSERVATION

- 16.145 Audit was conducted on a sample basis but included a review of commitment controls, drawing accounts, procurement and payment procedures, advances, trust accounts, assets, losses and deficiencies and internal audit.
- 16.146 The Auditor General found significant weaknesses which mirror findings in respect of other Departments and Agencies. In short, they were:

- Weaknesses in commitment control;
- Lapses in the operation of the drawing account;
- Failure to comply with procurement and payment procedures;
- Failure and weakness to manage Salary and Allowance Advances. The Department failed to even produce an Advance Register for Audit verification and failed to record advances properly in the Expenditure Transaction printout report.

16.147 In 2004 the Department maintained and managed four Trust Accounts. No records were made available to the Auditor and this is a matter of very profound concern. The failure can only be intentional and the Auditor General should immediately use his coercive or prosecutorial powers to obtain this information.

16.148 No Asset Register was furnished to the Auditor General. There was no record of Assets in any appropriate register.

16.149 No losses and deficiencies report was made available to the Auditor.

16.150 The Internal Audit Unit failed to provide any records or reports for the Auditor General and the only conclusion that

can be made is that the Internal Audit Unit is either ineffective or non-existent.

16.151 This Department showed clear evidence of an intentional refusal to assist or cooperate with the Office of the Auditor General. This conduct is a breach of the **Public Finances (Management) Act 1995** and of the **Audit Act 1986**.

16.152 We strongly recommend that the Office of the Auditor General refer or prosecute those responsible persons.

16.153 The refusal to cooperate and assist extended to a failure to reply to the Management Letter from the Auditor General as of October 2005.

DEPARTMENT OF AGRICULTURE AND LIVESTOCK

16.154 The Department of Agriculture and Livestock is a fundamentally important Department responsible for the management of all aspects of Agriculture at every level of Government. A full and complete Audit was carried out by the Auditor General and significant weaknesses and failures were identified.

16.155 These were:

- Weaknesses in the Management of drawing accounts. A difference existed of K 14,056,180 between the Expenditure Statement Ledgers and records maintained by the Department of Finance.

- The Department maintained six Trust Accounts but three Institutions have not submitted Bank Reconciliations since 2000. This is gross breach of the **Public Finances (Management) Act 1995** which requires a quarterly reconciliation of Trust Accounts.
- Weaknesses in the area of account payment. The Auditor General records a list of failures and intentional overriding of controls which are unacceptable.
- Weaknesses in the management of Salary and Wages including no quarterly review carried out during the year to determine approved staff ceilings, no staff establishment register or approved staff ceiling from DPM, no production of manpower summary and payroll reconciliation to the Auditor, no production of special pay listing and evidence of abuse of payment to Officers were reported by the Auditor General.
- There was no updated Asset Register maintained and the register that did exist did not contain relevant information. Indeed so complete was the failure that the Department had not kept an Asset Register for assets purchased during the years 2000 to 2004 and this clearly shows a lack of performance and capacity on the part of the Head of Department.
- Motor Vehicle disposal to officers of the Department was unrecorded with no tenders or other lawful requirements complied with.

- Management of Advances to Officers was poor and advances remain unacquitted, unexplained and payment of advances while existing advances remain unpaid or unacquitted was identified.
- Journal Entries inadequate and out of date and transactions amounting to K 763,479 were not registered at all.

16.156 Once again, no response was received from the Secretary of the Department to the Management Letter provided by the Auditor General and a large number of outstanding matters from previous Audits have not been addressed or rectified.

DEPARTMENT OF LANDS AND PHYSICAL PLANNING

16.157 This Committee has tabled to this Parliament a very detailed Report on the Department of Lands and Physical Planning in 2005.

16.158 That Report was highly critical of management of almost every aspect of this Department.

16.159 We commend that Report and our recommendations and resolutions to the National Parliament.

DEPARTMENT OF PETROLEUM AND ENERGY

16.160 In 2004 the Auditor General conducted a detailed Audit of the Department of Petroleum and Energy and identified

significant weaknesses and failures – particularly in respect of Trust Accounts – in the Department.

16.161 So serious with the findings of this Committee has commenced an Inquiry into the Department of Petroleum and Energy which will be completed in mid 2009.

16.162 The Committee will report to the National Parliament at the conclusion of that Inquiry but the Report of the Auditor General for the Financial Year 2004 may be found in Schedule 2 to this Report and we strongly commend Members to read the report on this Department.

16.163 The Part Two Report of the Auditor General shows a Department in considerable disarray with a lack of command or control at every level of fiscal management. The situation appears to have worsened from 2004 until 2008.

DEPARTMENT OF MINING

16.164 The Department of Mining is a very important Department of Government controlling, managing and overseeing the mining industry in Papua New Guinea.

16.165 In 2004 considerable defects and weaknesses were identified by the Auditor General in his Audit of the Department of Mining.

16.166 In Summary, these were:

- An unreconciled difference in revenue receipts between Departmental records and Department of Finance records.
- Shortcomings in revenue collection to the extent that the Auditor General was unable to verify that revenue of K 3,054,661 was actually banked.
- Weaknesses in the preparation of the drawing account bank reconciliation including the fact that the Bank and Cash Book balances have been overdrawn throughout 2004. This is a breach of the **Financial Instructions** which stipulate that bank accounts should not be overdrawn.
- Weaknesses in commitment control. The Department recorded a shortfall of K 27,134,909 and considerable differences between expenditure vote items and the expenditure statement printout of the Department of Finance and the Department of Mining.
- Procurement and payment procedures were not complied with.
- There were considerable weaknesses in the management of Salaries and Wages.
- Advances were unrecorded, not acquitted and improperly paid in some instances.
- There were shortcomings in the maintenance of motor vehicle records.

- There were weaknesses in the raising and posting of Journal Entries.
- One hundred percent of Journal Entries raised did not have the required approval of authorized senior officers and the raising of Journal Entries was performed by officers involved in the posting of those entries. This is not acceptable and should be delegated to another officer.

16.167 The Department of Mining operated only one Trust Account – the Mining Trust Account No. 360/460-63. The Department recorded a debit balance of K 152,500 at the end of the Financial Year while the Department of Finance recorded K 1,590,098 credits – a difference of K1,437,598. The difference has not been reconciled.

16.168 No response was received from the Secretary to the Management Letter from the Auditor General.

16.169 Outstanding matters identified in the 2003 Audit had not been addressed by the Department.

DEPARTMENT OF TRANSPORT

22.170 In 2004 the Auditor General conducted a detailed Audit of the Department of Transport and found the following weaknesses:

- Revenue collection was poorly recorded and unreconciled.

- There were numerous and unexplained delays in the banking of public monies and this problem was outlined by the Auditor General in 2003 but clearly have not been addressed.
- 16.170 The Department did not make available registers and records of PMV Licenses issued and therefore the number of licenses issued could not be compared against the ceiling for such licenses.
- 16.171 Audit could not ascertain the number of Taxis operating in NCD as the registers and related records were not provided to Audit. This matter has also been a subject of comment in the 2003 Audit, but clearly nothing had been done to address the problem.
- 16.172 Procurement and payment procedures were not complied with.
- 16.173 There was poor internal control recording and accounting for Salaries and Wages and personal files, tax declarations, higher duty allowance forms and other accounts and records were not produced or did not exist on the files examined by the Auditor General.
- 16.174 There was poor quality control over the management of advances and the casual records. Payment and acquittal of advances and records of casual employees were not evident or were incomplete and unreliable.
- 16.175 Forty Journal Entries were not certified by authorized officers.

- 16.176 The Asset Register was not updated on a regular basis and stock takes were not performed.
- 16.177 There was no record of loss or damage or disposed assets produced to the Auditor.
- 16.178 Assets acquired in 2004 were not recorded in the Register that did exist and the Register was not updated for the years 2002, 2003 or 2004.
- 16.179 The Auditor General concludes:
- "This increased the risk of theft and losses of state-owned property and it also breaches the Financial Instructions. The lack of performance on the part of the Divisional Head and the Officer in Charge for not complying with Financial Regulations has resulted in this sad state of affairs".***
- 16.180 There was poor control over losses and deficiencies and records were misleading. The Department's response to an Audit questionnaire reported no losses for the year under review however, the Auditor General discovered that the Departmental Secretary's vehicle was stolen and burnt by criminals in March 2004.
- 16.181 There was poor control over motor vehicles and records were not produced for Audit examination.
- 16.182 These failures are a typical of weaknesses and failures across all the Public Service as is clear from this Report.

16.183 The Secretary of the Department of Transport had made no response to the Management Letter from the Auditor General by October 2005 and there were significant outstanding matters from the 2003 Report which were both reflected in 2004 and which had clearly not been addressed by the Department.

DEPARTMENT OF COMMERCE AND INDUSTRY

16.184 The Department exists to encourage the expansion of Industry and Commerce by promoting internal and external trade, employment and the participation of our citizens in economic growth through involvement with commercial and industrial activities.

16.185 The Auditor General found significant weaknesses and failures in the fiscal management exercised in this Department. The summary of those findings follows:

- There were significant weaknesses in commitment controls. Information relating to specimen signatures of Section 32 Officers, Financial Delegates, signing and counter-signing officers was not submitted for Audit verification. Audit was unable to determine whether expenditure committed and paid was either lawful or within designated limits.

This is a very serious failure. It is not only a failure to keep and produce records but also a failure to cooperate

with and assist the Auditor General when requested to do so.

- Expenditure statement reports produced by the Department of Finance for the year 2004 were not submitted for Audit purpose and the Auditor could not compare and determine if expenditures incurred by the Department were within budgetary allocations.
- Deficiencies in the reconciliation of a drawing account.
- Fraudulent cheques from 1996 until 2004 were uninvestigated.
- Cheques in the bank statement but not in the cheque book represent cheques presented at that Bank which were not recorded in the cash book and this may be attributable to payments not recorded. This is a serious breakdown in internal control over cash that needs to be investigated immediately. No response or explanation has been forthcoming from the Department.
- There were unidentified erroneous and duplicate Journal Entries dating back to 2001. This clearly indicates a breakdown in internal control over the recording of transactions in the cash book.
- Credits aggregating K1,459,208 in the bank statement were not recorded in the books before the preparation of bank reconciliation for December.

The Auditor General concludes:

"The above matters demonstrate the lack of attention by those who performed day to day accounting functions and responsibilities. These matters were raised by previous Audit reports but it appears no corrective action has been taken".

- Failure to comply with procurement and payment procedures.
- A Trust Account questionnaire issued to the Department was not answered. In the absence of this response the Audit of Trust Accounts could not be carried out.
- There were weaknesses and discrepancies in the payment of Salary and Wages records and accounts.
- There was a lack of control and lawful management and control over payment and acquittal of advances.
- The Fixed Asset Register was defective and disposal of assets was not carried out in accordance with the Financial Instructions.
- The Department does not have an Internal Audit Section which may partly explain the very poor accounting and fiscal management performance of the Department.

16.186 Once again these matters were referred to the Secretary of the Department but no response was received by October 2005.

16.187 Similarly, there were outstanding matters from the 2003 Audit Report which had not been attended to or addressed by the Department.

DEPARTMENT OF POLICE

16.188 This Committee would expect the Department of Police, as the Constitutional agency responsible for the enforcement of law and order, to maintain proper, lawful and reliable accounts and records of its management of public funds.

16.189 However, in 2004 the Auditor General has identified a number of serious defects and weaknesses in fiscal management. They were:

- Shortfalls in revenue collections.
- Outstanding commitments.
- Deficiencies in drawing account reconciliations as with all other Departments the records and reconciliations were not complete or updated and it was acknowledged by the Department that the criticisms were correct. The Department quite candidly admitted that the Chief Accountant and Finance Director "... **had not been**

performing their jobs". These officers should have been replaced immediately.

- Non-compliance with procurement and payment procedures. It is notable that a large number of these weaknesses relate to the sourcing of goods and services without contract or tender. This is a significant weakness and one that needs to be rectified immediately.
- The Central Asset Register was inactive as the quartermaster is bypassed in the procurement chain and is not informed of the purchase of assets. This is entirely unsatisfactory. Stock takes had not occurred and there were no records or documents to verify the existence and condition of the various assets.
- The Auditor General could not find a Central Asset Register and could not ascertain virtually any information concerning assets, values, existence, location, custodianship or budgetary allocation to purchase assets.

The Auditor General concludes:

"Due to the inactiveness of the Department to properly account for all its assets:

- ***The Department does not know the actual value of all its assets;***

- ***The Department is not able to maintain all its assets.***
- ***The Department is not able to effectively control its assets.***
- ***The Department is not able to improve or replace its outdated and depleted assets.***
- ***The Department's failure in recording and keeping an up to date Assets Register for all the assets purchased during the years 2000 and 2004 were not accounted for, which cost the State a substantial amount of money. This also increases the risk of theft and losses of state-owned property and is a breach of Financial Instructions."***

- Poor and ineffective management of advances.
- A Losses and deficiencies questionnaire was not returned.
- An internal audit questionnaire issued on the 6th June 2005 has not been returned. The Committee can only assume that the Internal Audit Unit is either non-existent or ineffective.

16.190 We can report that the Commissioner of Police did make response to the Auditor General and these were incorporated into the Report of the Auditor General.

16.191 There were outstanding matters from previous Audits which had clearly not been addressed as they closely reflected the problems identified in 2004.

JUDICIARY SERVICES

16.192 The Judiciary Services has contended for years that it is a non-State service and not responsible for the collection of revenue. It also contends that it is not bound by the procurement provisions of the **Public Finances (Management) Act 1995** and disregards compliance with financial procedures and instructions set out in that Act.

16.193 This Committee disagrees. The Judiciary Service is subject to Audit and subject to the **Public Finances (Management) Act 1995** in the same way as any other Government agency or service.

16.194 This is particularly so considering that in 2004 the NJSS did not have its own financial procedures and instructions or Public Service Management procedures. Quite how the NJSS intended to function is uncertain – it presumably intended to act as it pleased regardless of the existing law of accounting, record keeping and fiscal management.

16.195 In any event, the Auditor General has identified some significant failures in 2004. These were:

- Shortfall in collection of revenue. NJSS did not maintain any records of revenue collection. The Auditor General, in the past, commented that although revenue collections are made by the Finance Department this does not relieve NJSS from maintaining revenue ledgers necessary for their revenue forecast and counter records for reconciliation purposes.

This Committee agrees and will make certain recommendations in this regard.

- Lapses in budgetary control procedure
- Deficiencies in the maintenance of withdrawing bank account. NJSS did not maintain or produce monthly bank reconciliation statements, January to December bank statements or a list of unrepresented cheques. Apparently bank reconciliations had not been prepared since 2000 and this is totally unacceptable.

The Auditor General records that Finance Officers lack the required training in the preparation of PGAS generated Bank Reconciliations and request for trained staff to the Department of Finance had not yielded any result.

- No Bank Reconciliation was prepared for the whole year ending the 31st December 2004. The Auditor General quite rightfully states that this failure facilitates possible fraud which would be difficult if not impossible to detect.

- An IBD investment of K 525,699 was shown in the 2002 Audit Report but no documentation was made available to the Auditor General and no Audit could be carried out on this IBD.

This is entirely unacceptable and those documents and records must be produced to the Auditor General as a matter of law, when requested.

- Procurement and payment procedures were not complied with and the Auditor General properly concludes that the failures could facilitate fraud and misuse of public funds.
- No documents were kept or produced to the Auditor General concerning significant consultancy fees and capital works payments and the Auditor General concludes that no proper documents were maintained. It is impossible for the Auditor to assess the projects, the terms of payment, the legality of the contract or any other matter.
- There was poor control over advances and acquittals of advances. the Auditor General concludes:

"It appears ... there is absolute no control over the management of advances paid to Officers. This situation could facilitate misappropriation and misuse of advances

paid to officers. The same situation was reported in the last two years Audit Report”.

- Poor control over assets in that an Asset Register was not produced to the Auditor and does not appear to exist.
- More seriously, there were significant defects in the management of the Sheriff’s Trust Account and the Registrar of the National Court Trust Account. Proper and complete records were not maintained in that incomplete cash book and reconciliation statements were found to exist.
- Receipts for the Trust Account were not itemized or classified and this simply means that funds could not be traced. It also facilitates fraud and misuse of Trust Funds and the possibility of duplicate refunds and deposits from the Trust Account and difficulty in determining the actual revenue received.
- There were no registers maintained to record interest revenue received for Trust Accounts and not all the interest received was recorded in the cash book. Where did it go?

16.196 These are very serious findings and this Committee intends to commence an Inquiry into Judiciary Services in 2009 to ascertain whether the situation has improved.

16.197 To compound these failures there was no response to the Management Letter from the Auditor General by October 2005 and almost identical matters remained outstanding from earlier Audits that had clearly not been addressed.

17 PART II - EVIDENCE RECEIVED IN THE INQUIRY FROM THE AUDITOR GENERAL AND HEADS OF DEPARTMENT

17.1 On the 4th December 2007 this Committee sought to learn from the Auditor General why he does not use his coercive powers against Departments or officers who did not cooperate with his Office.

17.2 The transcript reveals the following exchange:

"Acting Chairman:

You have certain powers to summon, take evidence on oath and summon documents, so have you used these powers in the last five years? If not, then why not?

Mr. George Sulliman – Auditor General:

We have not used these powers. Basically there are two reasons why we have not used them.

Firstly, all departments have failed and if we use these powers it will have severely affected the ones that have been giving us support.

Secondly,when one organization is not ready for us to carry out our audit we then move on to another department because there are so many for us to get done. The time spent on one entity would have resulted in us not producing any audits and therefore no reports.

Thirdly, for the last three years we have not had any legal officers. It was only in July this year that we were able to secure a legal officer.”

- 17.3 There is clearly a resourcing problem in the Office of the Auditor General.
- 17.4 This Committee conducted a contemporaneous Inquiry into the financing and resourcing of that Office and we have made a Report to the National Parliament recommending significant increases in funding and manpower.
- 17.5 It is our opinion that the constraints outlined by the Auditor General are a major contributing factor to the failure of fiscal accounting across all Departments.
- 17.6 Further, it is clear to us that the Department of Finance had failed to enforce or to demand the production and submission of statutory records and accounts. When questioned about

this issue, the Head of that Department Mr. Gabriel Yer gave no information or answers that assisted the Committee at all.

- 17.7 Therefore, the Committee was forced to seek answers and assistance elsewhere to understand the exact day to day problems faced by Heads of Departments that may have caused this situation to develop.
- 17.8 The Committee wrote to all Departments of Government, Provincial Governments and research and academic institutions seeking contribution to this Inquiry. Specifically, we sought advice and recommendations on practical daily problems in complying with accounting requirements and suggested remedies.
- 17.9 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. Copies Of the responses received are shown in Schedule Five.
- 17.10 We conclude that the same shortcomings and problems that have prevented lawful accounting by our correspondents, also exist in all Departments and the evidence is directly applicable to the Part Two Report of the Auditor General for the financial year 2004.
- 17.11 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.

17.12 Some of the reasons given were:

The Provincial Administrator of Manus Province:

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

- Inexperienced Officers unable to properly document incoming and outgoing transactions and explanatory notes and letters which gives rise to authority for transactions to be undertaken;
- Lack of timely reconciliatory information being provided by Provincial Treasuries;
- Poor or unreliable and inaccurate records being maintained in hard copy held by Provincial Division of Finance and Provincial Treasury;
- Restricting access to records held by heads of Provincial Treasuries as some Provincial Treasurers have been known to override transactions without leaving traceable evidence which could be examined and compiled for records and examination purposes;
- Records are sometimes deliberately removed or obliterated by staff of Political Officers to make tracing and accountability of transactions virtually impossible. This applies in particular to DSIP funds;

- Lack of security over release of cheques over the counter after they have been processed. This enables cheques to be collected by wrong people which has led to inaccurate or poor record keeping for compilation and audit purposes. It has also led to the ultimate destruction of hard copy records which makes tracing difficult;
- The use of wrong budget lines to transact accounts which has usually led to overdrawing of funds. This has sometimes led to records being deliberately withheld or destroyed to avoid detection.

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

- The Province needs a properly organized and resourced Audit division. There is only one auditor at present and he is extended because he needs to give guidance on proper fiscal management to the Provincial Administration, 12 LLG's and Provincially owned entities and enterprises and to the public;
- The Province needs at least two more staff for the Audit Unit and they should be specifically assigned to certain Divisions;
- The Province needs resources to undertake six monthly or annual top up training on financial management and

proper financial record keeping. These should be undertaken in the Province;

- The Province needs to provide adequate training on a regular basis to our specialized Financial Management Staff and to provide appropriate IT equipment to enable the keeping of electronic and hard copies of transactions for records and examination purposes;
- Manus Province is establishing a Strengthening Provincial Internal Audit Committee in conjunction with the Departments of Treasury, Provincial Affairs and the Office of the Auditor General. Assistance is needed in this endeavour;
- Specialised financial IT equipment is required to link the Provincial treasury with Provincial Administration. This will enable officers of both entities to check and cross check financial transactions on a regular basis so that transactions are kept open and transparent;
- There may be a need for JDBPC records on financial management to be linked with offices of Open Members, Provincial Treasuries and District Managers as the volume of funds handled by these officers has increased substantially over the past two years and this has meant an increase in accountability difficulties.

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

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

17.13 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.

17.14 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 2 Report of the Auditor General for 2004.

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

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

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

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

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

- 17.18 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.
- 17.19 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.
- 17.20 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.
- 17.21 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.
- 17.22 The Auditor General clearly told this Committee that he found no improvement in performance by Departments since 2004 and we do not accept that, other than spasmodic and isolated attempts at reform, there is any overarching drive to address the problems by Government, Departments, the Executive or any individual Head of Department.

- 17.23 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.
- 17.24 Combine this weakness with the absence of control and oversight by the Departmental Heads and/or the Department of Finance, the devolution of accounting functions to agencies unequipped to perform the task and collapse was inevitable.
- 17.25 Indeed, if the performance is as bad as we find, why were accounting functions devolved in the first place?
- 17.26 We can also find that the Department of Finance in recent times seems to be providing some assistance and training – and we intend to explore this matter in later Inquiries to assess the extent and success thereof.
- 17.27 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.
- 17.28 We are therefore unable to make any conclusion on efforts to restore or rebuild our systems of accounting, except to say that in 2004 we could identify little if any such effort.

- 17.29 If the submissions from the Departments and Provincial Governments are correct, the situation is worse in 2008 than 2004.

18 PART III – ANALYSIS OF THE EVIDENCE.

- 18.1 By 2004 there was a serious collapse and accountability for the use of and transactions with public money, property and stores across the entire span of Government.
- 18.2 The Committee has been deeply concerned by the revelations made during and as a result of this Inquiry.
- 18.3 One major question raised by the evidence was – how could the national accounting system have reached such a state of collapse?
- 18.4 The Committee has carefully considered the evidence and we can only conclude that the situation in 2004 represented a failed Executive control over national finances compounded by mala fides in the Officers and Departments controlling and accounting for public funds encouraged and protected by a culture of impunity that has increasingly characterized Governance and society in Papua New Guinea.
- 18.5 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.

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

- Overspending by Departments resulting from the inability of the Department of Finance to control public spending – notably in its own Department.
- Ministers failing to demand Departmental Heads be responsible for transparent and compliant spending of Agency budget allocations;
- Considerable abuse and diversion of public monies that goes undetected and unpunished;
- Since 2004, 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.
- In and since 2004 there has been a worrying trend to appoint signatories to Trust Accounts who are not Section 32 Officers and could not hold such delegation in any

event. There is no obvious concern or attempt to stop these illegal appointments.

- 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.

18.7 Every Department of Government had shown serious weaknesses and flaws in fiscal accounting for some years and the situation worsened in 2005 when the Auditor General conducted more searching and deeper Audits than in 2004.

18.8 Further, the failure to keep adequate, proper, lawful and complete accounts and records of money – and in particular of Trust Accounts – has become systemic and systematic in Government Departments and this has had a number of effects.

18.9 First, the Executive has completely lost control of the Public Service and of its handling of public monies.

18.10 Secondly, development and service delivery suffered as a result of the collapse of accountability and record keeping.

- 18.11 Thirdly, how can Government budget, plan deliver services or development, fix currency or carry out any functions of Government towards its citizens in the absence of proper, lawful and reliable accounts?
- 18.12 Fourthly, there has been a shift in Constitutional power from the Executive in the National Parliament to unelected and unrepresentative public servants who exercise power that they were never intended to have but which they have arrogated to themselves. The National Parliament and the Executive have allowed this to happen and have taken no steps to bring these officers under control.
- 18.13 The Executive has completely lost control of its accountability for the Management of Public Funds. Parliamentary appropriations are ignored, the rule of law is intentionally subverted and officers mishandle, misappropriate and misapply public funds as a matter of course free of any risk of detection or punishment.
- 18.14 Fifthly, the mismanagement of Trust Accounts both bank and non-bank and Royalty Trust Accounts has become an incidence of governance and is manifested clearly in the appalling abuses of Suspense Trust Account No. 2 by the Department of Finance.
- 18.15 Sixthly, this has led to a failure of Service and Development delivery and a failure of the duties of the Public Service towards the citizens of this Country and towards the Government which employs them.

- 18.16 Recommendations of the Auditor General and this Committee are ignored and this has developed a culture of impunity for those who mishandle and misuse public monies. This means, in fact, that there is a complete collapse of the rule of law insofar as Government financial accounting is concerned.
- 18.17 The Committee closely questioned the Secretary for Finance and the Secretary for Treasury to try and ascertain exactly how this collapse had occurred and what had been done about it.
- 18.18 Those two senior accountable Officers to Government completely ignored this Committee and intentionally refused to co-operate or provide documents, information or records when called upon to do so.
- 18.19 Nowhere is the arrogant and contemptuous disregard of the rule of law by Public Servants better illustrated than this behavior.
- 18.20 Both these Officers are Head of Departments which are directly concerned with the Management of Public Funds and the application of monies in accordance with the directives of Government.
- 18.21 The Department of Finance in particular has misconduct itself for years and by 2004 had become a corrupt and corrupting influence in the fiscal management of public monies in Papua New Guinea.

- 18.22 Not one single National Department complies with the requirements of the **Public Finances (Management) Act 1995** or the **Financial Instructions** and many conduct their affairs in breach of those Acts and the **Constitution**.
- 18.23 More worryingly, there is a very clear and concerted practice of blatantly ignoring the Auditor General and the legal obligations of Public Servants towards that Constitutional Office.
- 18.24 Further, this Committee has detected in the last four years a very clear pattern of avoidance of Audit by the simple expedient of not producing Financial Statements or records in accordance with law.
- 18.25 The Auditor General is under-funded and under-resourced and also seemed strangely hesitant to use the coercive and prosecutorial powers vested in it by the **Audit Act 1986** – at least until the Auditor General explained that failure to the Committee – **See Page 118- 119 of this Report**.
- 18.26 This Committee has concluded that, in 2004, fiscal accountability and record keeping amongst National Government Departments had failed.
- 18.27 After close questioning of the Heads of Departments we have no clear understanding why this has occurred but do find that lack of training and experienced personnel is a significant contributor.

- 18.28 However, this does not explain what is obviously an intentional and planned overriding of lawful and of legal requirements by senior (and not so senior) Public Servants.
- 18.29 We remind this Parliament that the Auditor General found very large misappropriation and financial mishandling by the Department of Finance in respect of Trust Suspense Account No. 2 in 2004, characterised and achieved by intentional and deliberate overriding of controls by Management.
- 18.30 We conclude that the gradual decline in accounting standards has been hastened by the devolvement of accounting functions to line Departments who are utterly incapable of meeting their requirements.
- 18.31 This has led to continuing failure which has been accepted as a norm. This failure has led to a veil of secrecy behind which fiscal misappropriation, mishandling, theft and fraud and corruption have flourished.
- 18.32 The situation in 2004 was bad enough but we conclude that things have got worse since that time.
- 18.33 If, in 2008, the Department of Finance could flatly refuse to assist or co-operate, explain or provide any records or documents to a senior Permanent Committee of this National Parliament, all Members have a very serious problem to deal with.
- 18.34 It can properly be said that certain parts of the Public Service are in open revolt against Government and the Constitutional

scheme of accounting and financial handling and this must be dealt with immediately and by any means lawfully available.

- 18.35 We also conclude that many of the Senior Public Servants including many Heads of Department are political appointees who owe their positions to political patronage and repay that patronage when they are required to do so.
- 18.36 Clearly the evidence from Mrs. Margaret Elias showed that NEC political interference in the appointment of Senior Officers was a major problem but even so, we are entitled to assume that Heads of Department and Senior Officers of this Public Service are the brightest and the best of our citizens.
- 18.37 Regrettably, the evidence clearly shows that many do not exhibit the intellectual or ethical qualities required by the positions they hold – in particular by Trustees and signatories of Trust Accounts.
- 18.38 All this would be bad enough if the country had seen development and service delivery as it is entitled to expect. But it has not.
- 18.39 Huge sums of money from at least 2000 onwards were diverted from their appropriated purposes and used at the seemingly unfettered discretion of Public Servants for purposes of their own devising or on unproductive, unrecorded and unapproved ways.
- 18.40 By any measure of social indicators, this country has not progressed as it should despite the fact that the Government

generally appropriates money in a responsible and well intentioned way.

- 18.41 The conduit which turns policy interaction and appropriated monies into the results has become corrupted and congested by incompetence, intentional illegality and failed systems of account or record.
- 18.42 Even this would not be so bad were there any risk of detection or punishment. For years there has been no risk of this at all.
- 18.43 This misuse of public monies no longer involves small amounts but hundreds of millions of kina every year are diverted in this way from their intended purpose. We direct Members to our Report on the keeping of the Public Accounts for the financial year 2004 where even ***Appropriation Acts*** were ignored.
- 18.44 The extent of that impunity can be seen by the complete inaction on the part of the National Parliament and every Law Enforcement Agency and every Government Agency toward recommendations and findings of the Auditor General and of this Committee for the last four years.
- 18.45 No prosecutions or investigations are made and there is clearly a lack of will and/or intellectual capacity to understand the seriousness and the ultimate effect of continued unlawful conduct.

- 18.46 We have said in the past the failure to deliver service and development is a breach of the contract between governed and the Government. This can only make a marginalized, impoverished citizenry become more frustrated as the years pass.
- 18.47 This Committee now intends to make certain recommendations arising from this Inquiry and urge the National Parliament to accept that these are matters of first National importance.

19 RECOMMENDATIONS.

- 19.1 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.
- 19.2 These Departments are, we believe, the repositories of expertise and advice for Government on fiscal management and accounting and we sought that expert assistance to make practical and achievable recommendations for reform.
- 19.3 Despite this attitude, we have attempted to deliver such meaningful and constructive recommendations as we can.
- 19.4 This Committee recommends that:

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

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

14. The National Parliament accept that it is the only entity that can remedy or rectify the collapse of fiscal management and administration,
15. 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 and in many instances, to the Auditor General.
16. The National Parliament accept that the Public Service, by 2004, were without control or oversight in their fiscal management and acted with impunity and immunity in their handling of public monies.
17. The National Parliament accept that the National Departments responsible for fiscal management, by 2004, acted just as they wished in respect of public monies and, in many instances, in direct defiance of Law, Constitutional requirements and Government policy and appropriation.
18. The National Parliament accept that, by 2004, there had developed a culture of impunity for Public servants in their dealings with and application of public monies such that the Accounts of the Government of Papua New Guinea were rendered unreliable (at best).

19. The National Parliament accept that there was, by 2004 and is now, 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.
20. The National Parliament accept that, by 2004 and continuing to the present, not one Department of Government can, will or is capable of complying with all lawful requirements of fiscal accounting. Many could not comply with virtually any requirement.
21. The National Parliament accept that this collapse of accountability is so complete that almost no Department could by 2004, or can now, reconcile or account for its own internal financing – much less deal with or apply development or service orientated Appropriations.
22. The National Parliament accept that Government policies, directives, appropriations and funding for service delivery and development are diverted, misappropriated, mishandled or not applied and that there was not in 2004, (or 2008), any competent, lawful or proper accounting or record of the application of money for these purposes.
23. The National Parliament accept that there is a direct correlation between the collapse of public fiscal accountability and failure of service delivery.

24. 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.
25. 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.
26. The National Parliament must accept that this collapsed system cannot continue.
27. Government should seek assistance and expertise wherever it can to replace failed individuals, failed systems and intentional refusal by Officers of the Public Service to act properly and lawfully.
28. There is no detectable will or ability in the Public Service – particularly in the Department of Finance – to change or reform. If there was, the Department of Finance would have told this Committee. The huge amounts of money misappropriated in that Department in 2004 and into 2005, clearly displaced any ability or wish to change or to comply with the duties imposed on that Department.
29. The Department of Finance must be brought under control and be made accountable. The Department could not and cannot control public spending or fulfill even basic

accounting tasks. Government should seriously consider degazetting the Department and replacing it with a specialised accounting and fiscal agency to guide and implement development and service delivery budgets.

30. Power to expend monies be removed in whole or in part from the Department of Finance pending restructuring of that Department.
31. 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.
32. Decentralised accounting has failed. No Department of Government has the expertise or capability to account for the use of or transactions with public monies. Either the devolution is revoked 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.
33. 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.

34. Ministers must assume responsibility for transparent accounting by their Departments and not acquiesce in the current failed system.
35. 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.
36. Senior management has failed to enforce standards of accounting required by Law and no analysis of capability has ever been conducted – this must change.
37. The ***Public Finances (Management) Act 1995*** and ***Financial Instructions*** be updated and modernized.
38. The ***Audit Act 1989*** be updated and modernized.
39. The Public Accounts Committee draft Bill be enacted to modernize and empower the PAC.
40. Executive power must be reasserted over fiscal management and power over and accountability for expenditure reclaimed by the Executive.
41. Ongoing training and supervision of accounting staff must be implemented and maintained at all levels of Government.
42. Departments and agencies that fail to make statutory records or accounts should be penalized by a reduction of funding or removal and immediate 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.***

43. 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.
44. Qualified Finance Officers only should be deployed in self accounting agencies and constantly controlled and overseen. Ready assistance and advice should be available to these Officers if it is required.
45. 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.
46. 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.

20 RESOLUTIONS OF THE COMMITTEE

- 20.1 The following Resolutions were made unanimously by the Public Accounts Committee:
2. This Report is accepted as the Report of the Committee.
 3. The title of the Report is approved in the form:

"INQUIRY INTO THE PART TWO REPORT OF THE OFFICE OF THE AUDITOR GENERAL FOR THE FINANCIAL YEAR 2004."
 4. The Schedules to the Report are approved.
 5. There is no dissenting Report.
 6. 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.
 7. That the Committee accepts the findings of the Office of the Auditor General in respect of the Public Accounts in the Part 1 Report for the financial year 2004, and will report to Parliament on necessary changes to the keeping of the Public Accounts as set forth in Section 86 (1) (d) (i – iv) of the **Public Finances (Management) Act 1995**.

8. To accept and endorse the referrals set forth in Para. 21 herein.
9. To accept and endorse the recommendations in Para. 19 hereof.
10. To censure the Department of Finance for failing to enforce lawful and correct accounting and recording of the use of public monies, property and stores in the financial year 2004.
11. To censure and refer 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.
12. 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.
13. 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.

14. To censure and refer the Secretary for Treasury, Mr. Simon Tosali, for failing to assist or cooperate with the Public Accounts Committee when requested so to do.
15. To censure and refer Mr. Simon Tosali for failing to attend the proceedings of the Public Accounts Committee when summoned so to do.
16. 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.
17. The Committee resolved 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.
18. 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.
19. That the Committee resolve that the PAC will consider the 2006 and 2007 Part Two Report of the Auditor General in 2009 and Report to the National Parliament as a matter of urgency.
20. 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.

21. That the Committee resolve that the current system of Trust Accounts has failed. Trust accounting and the lawful management and application of monies by the Public Service through Trust Accounts had failed by 2004 and should be replaced.
22. 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.
23. That Government accept that the fiscal management by National Departments had in 2004, and still 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.
24. That the Executive reassert its fiscal power and control by whatever lawful means are available to it.

25. That the Government reassert control over and accountability for the use and handling of public monies.
26. That the Government restore and reassert the Constitutional power and systems of fiscal management as a matter of national urgency.
27. 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.
28. 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.
29. 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.
30. Devolved accounting functions should be revoked. A central, specialised 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.

31. 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.
32. The Government should effect specialized legislation to deal with illegal conduct by Public officers and proclaim draconian punishment therefore.
33. 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.
34. 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.
35. 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.

36. Interference with or refusal to obey or effect Appropriations made by the National Parliament, should be met with severe penalties.
37. Appointment of senior officers – particularly Heads of Departments should be finally approved by an independent Board possibly constituted of representatives of Church/State/private enterprise and aid donors with power to investigate, interview and refuse appointment.
38. Section 32 Officers should be carefully and selectively appointed and the positions should be made only where the officer is trained, competent and honest.
39. Signatories to Trust Accounts should only ever be experienced and carefully chosen officers. They should have clear and precise controls.
40. Every limitation and failure reported by the Auditor General for 2004, needs to be individually addressed.
41. Government must adequately and properly fund the Office of the Auditor General and the Public Accounts Committee as the **Constitution** requires.

42. Every public servant who has failed to perform his duties under the **PF(M)A** or the **Financial Instructions** should be immediately replaced.
43. Every public servant who has failed to cooperate with this Committee and/or with the Auditor General should be immediately replaced.
44. That Government immediately recruit, deploy and adequately fund and resource Internal Audit Units in every National Department.
45. That Law Enforcement agencies be immediately revitalized, improved, properly staffed and resourced and adequately funded to deal with financial failure and fraud in Government.
46. Accounting processes in all agencies should be reviewed and modernized or reformed in accordance with recommendations by the Auditor General.
47. Asset lists should immediately be established.
48. The Government should demand and obtain Guarantee Register, Loan Register, Trust Instrument Register, Trust Account Register, Asset Register and all other running records which were not produced to the Auditor General or which did or do not exist.

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

21 REFERRALS.

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

- 21.2 In summary, the very culture of impunity that we have identified in this Report means that any referral by us would be a hollow gesture – and it is high time that the National Parliament realized the extent and terrible effect that this collapse of law enforcement has had on our National Institutions, reputation and viability as a nation.
- 21.3 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.
- 21.4 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.
- 21.5 We refer Mr Gabriel Yer to the Auditor General with a recommendation that he exercise his powers of prosecution for failure of that Officer to assist or cooperate with the Auditor General in the conduct of his audit.
- 21.6 This Report and the Part Two Report of the Auditor General for 2004 is referred to the Office of the Ombudsman for consideration as to whether any breach of the Leadership Code has occurred.

22 CONCLUSION

- 22.1 The Auditor General has, for many years, in his Part Two Report on the Public Accounts of Papua New Guinea, warned the Government of the increasing deterioration and failure in the management of and accounting for transactions with public monies, property and stores and condescended to specific examples. Those warnings have not resulted in any remedial action that this Committee can identify.
- 22.2 Finally, in 2004, the Auditor General, because of the significant adverse effects of the matters set out in this part of our Report, has disclaimed the Public Accounts of the Government of Papua New Guinea.
- 22.3 This Committee has accepted those qualifications and the Audit opinion. It accepts the basis upon which those qualifications and the opinion were made and thereby concludes that there was, by 2004, a very serious collapse in almost every aspect of public fiscal accounting and control in every Department at every level of Government.
- 22.4 The failure is a result of many years of dereliction of duty, negligence, ineptitude, corruption and intentional subverting of legal obligations and controls by our Senior (and not so senior) Public Servants. These are the very Officers paid to protect and manage public monies to deliver services and development.

- 22.5 These concerted and intentional failures extend to every level of Government from National to District level and every arm, entity and Department of Government including public bodies, Provincial Governments, companies, statutory bodies and individuals who may either hold public monies for or on behalf of the State or a third party or are otherwise accountable for the control of public monies, property and stores.
- 22.6 The failure and collapse is so complete that it extends to remote areas of Government operations such as Hospital Boards, artifacts and State property, Commodity Boards, academic institutions and companies or commercial ventures in which the Government is either shareholder or investor.
- 22.7 This failure by Senior Officers of Government (who could rightly be regarded as our brightest and best) must be a measure of profound National concern and a matter of priority for any Government.
- 22.8 Immediate and thoroughgoing steps must be taken to ensure that the situation in 2004 is repaired, systems rebuilt and competent oversight, enforcement and management be instituted and maintained.
- 22.9 The National Parliament must address this National state of failure immediately. The future, viability and reputation of the Government of Papua New Guinea and the welfare of its citizens demand it.
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Signature of the Chairman

Hon. Timothy Bonga OL MBE MP

Date of adoption by the Committee: 25 May 2009.

SCHEDULE ONE
LIST OF WITNESSES

30th April 2008

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

14th July 2008

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

22/09/2008

Names of Witnesses	Comments
Mr. George Sulliman	Auditor General
Mr. Andy Vui	First Auditor General
Mr. Thomas Holland	Acting FAAG
Ms. Marina Cuetanousua	Advisor – Auditor General
Mr. Simon Tosali	Secretary Treasury
Mr. Joseph Klapat	Secretary DfCD
Ms. Margaret Elias	Secretary
Mr. Chris Kalebo	A/Dep. Secretary - Finance

Mr. Mario Cueva	Advisor - Finance
Dr. Joseph Pagelio	Secretary – Education.
Mr. Anton Benjamin	Secretary – Agriculture
Mr. Richard Sikani	Commissioner – Correctional Services
Mr. Romilly Kila Pat	Deputy Sec. Operations.

11th November 2008

Names of Witnesses	Comments
No appearances.	No comments

SCHEDULE TWO

2004 PART TWO REPORT OF THE AUDITOR GENERAL

SCHEDULE THREE

COPIES OF DIRECTIVES, NOTICES AND SUMMONSES ISSUED.

SCHEDULE FOUR

COPIES OF CORRESPONDENCE SENT BY THE COMMITTEE.

SCHEDULE FIVE

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

SCHEDULE SIX

TERMS OF REFERENCE