JOURNAL ENTRIES POSTING IN PERIOD 1 3:

23.292
Journal Entries posted during the post balance period or period

13 after PGAS was closed aggregated to K 1,779,699,460. An amount of K 1,681,724,166 related to Trust Accounts alone.

Included in the amount was a journal entry for K 28 3, 234, 129 for correction of a duplicate Journal Entry passed on account of

a

trust account.

23.293
The following are clear conclusions:

- Due care and diligence is not exercised by Approving Officers. How else can a duplicate journal entry for such a huge amount be processed? The fact that this occurred throws doubt on the whole process and integrity of the transactions processed.

- Officers are inadequately trained, inexperienced and incompetent.

., The Trust oversight team does not carry out its functions effectively throughout the year leaving an enormous amount of K 1,681,724,166 worth of journal entries to be effected in adjustments after the end of the financial year. This is chaos management, at best, and is comp letely unacceptable.

- Departments whose overpayments and underpayments are subject to journal adjustments are not aware of the increase/decrease as per expenditure figures.

- Transfers may not be correct.

- Such adjustments are made without the knowledge of the Departments or Agencies and this could facilitate irregular activities.

23.294 Due to the enormous number of unreconciled differences which remain incorrect during the year, the length of time taken to make the adjustments at the end of the year causes delays in the preparation of the Public Account Financial Statement.

23.295 Further, the journal entries are not always accurate and there was often a lack of cross referencing to the original entries.

23.296 Because the duties and responsibilities are not performed on a timely basis throughout the year, there is an unseemly rush to attempt to rectify balance of figures after the financial year.

23.297 This is incompetence and sits neatly with the evidence of the Acting Chief Secretary who told us that few Head of Departments, Senior Officer or Financial Officer understood their duties or how to perform them.

23.298 This is a matter of great concern to this Committee and we endorsed the following recommendations:

• All journal entries raised to transfer expenditure and receipts should be referred to and properly authorized by the responsible Departments and Agencies – and not solely performed by the Department of Finance which must attempt to plaster over the gaps left by inadequate or non? existent periodic reporting.

• The Department of Finance should monitor the monthly reconciliation of PGAS or TMS for the line Department transactions to ensure that the variations are promptly corrected .

.. All clearing items should be reconciled by the Department of Finance each month and outstanding items promptly cleared.

• Consideration should be given to encourage donors to provide Expenditure Reports on the funding of Development Projects before the end of the Financial Years.

• The Department of Finance should reinforce the policy of proper cross referencing of journals to staff involved in preparing and authorizing journal entries.

e The accuracy of journal posting should be subject to periodic and independent verification by the Internal Audit and Compliance Branch of the Department of Finance.

23.299 The Department of Finance response is revealing. The Department admits what has been clear to the Committee and the Auditor General for years. It says:

"Existing resource and capacity restraints limits Finance's ability to more regularly quality review data from the National Departments and Provinces. Review is therefore undertaken after

the year end by which time PGAS has been closed and rolled over to the New Year.
Ideally, all adjustments should be done in the PGAS system, however this is not possible. TMS is corrected to ensure accuracy of values reported in the Public Accounts. In some cases correction journals are reversed the following year end TMS and the relevant Agencies are advised to process a fix up in PGAS in the following year which offsets the reversal journal process by Finance.

However there are some correction journals such as Trust Account re-alignment and restatement which are not reversed and have now become permanent differences between TMS and PGAS.

Finance is currently reviewing its practices in regards to these journals".

23.300 In other words, the Department of Finance lacks the resources, expertise and the capability to carry out its statutory duties.

23.301 Here is the heart of the failure of our Public Accounts. Here is the core of the failure of the administration, application and management of public monies.

23.302 The Department of Finance has been derelict in its operations for so many years that it is unable to redress the problem.

23.303 At least it can be said that the Department has honestly addressed its own failure. For years we have heard excuses

- Payment Vouchers are not examined for completeness and accuracy prior to payment;

- In one Department, no vouching and testing could be undertaken due to there being no payment documentation at all.

- Payment Vouchers were not certified to confirm the legitimacy of claims prior to processing of payments.

- In some cases, Financial Delegates approved expenditure in excess of delegated financial limits.

- Missing supporting documentation is increasing at what the Auditor General describes as 11 ••• an alarming rate". In 6 Agencies the amount relating to missing documentation exceed K 10 million. 319 payment transactions showed 20 per cent of transaction documentation as missing.

Can any reliance be placed on the Report of expenditure in Departments, entities and agencies of Government in the absence of these records? We think not.

- Payments to suppliers were made on proforma invoices and without required quotations.

- Hiring of motor vehicles by senior management was an area of significant abuse. Financial Instructions prohibit the use of private hire in the National Capita I District - but this was regularly breached.

- There was excessive payment for entertainment, food, catering, beverages, consultancy payments, mobile prepaid cards and overseas studies - often with no or no adequate supporting documentation.

23.323 Once again, the Department of Finance has failed to play any coordinating role to ensure that Departments liaise with the Central Supply and Tender Board to comply with the Public

Finances (Management) Act 1995. Failure means:
• There is no corrective action or even detection of legislative breaches.

• There can be no assurance that Guidelines are adhered to and no ineentive to do so.

o There can be no assurance that Officers in Departments, entities and agencies of Government are aware of their procurement obligations. Indeed, we find that most Officers involved in these areas do not understand their duties and what they are actually suppose to be doing.

23.324 This is very serious and it is obvious, as we have reported in previous years, that the State is exposed to the risk of unauthorized purchases, over commitment of funds wit hout necessary cashflow, uneconomical or extravagant spending, fraud, misuse of purchase orders, inferior and expensive goods and services from unrecognized and unregistered suppliers, bogus consultancies engaged for no benefit and non compli ance with purchasing procedure.

ASSET MANAGEMENT.

23.325 The situation with Asset Management was no better.

23.326 In past years, Departmental and agency heads have sim ply failed to properly record assets, to maintain any form of stocktake or oversight of assets or their location.

23.327 An Asset Register is very basic management and bookkeeping.
It is ignored in almost every Government entity and agency that we have examined.

23.328 In 2007, the situation had not improved. In 18 Departments, it was obvious that:

• Asset Registers were non-existent or not properly maintained.

• There were no or no adequate periodical stocktakes or physical inspection of assets sufficient to show that they even existed - much less where they were and their state or condition;

•· Random selections of vouchers relating to assets showed assets in excess of K 2.5 million unrecorded.
Documentation for purchasing was missing or incomplete.

• There were virtually no records of portable or attractive items i.e. mobile phones and laptops.

23.329 This Committee is quite convinced that combining the failed asset management regime with failure to keep records of losses

or deficiencies is the result of widespread incompetence and misuse of asset purchase procedures.

23.330 We are strengthened in this conclusion by the fact that controls for management of motor vehicle fleets were non-existent. No one including the management of Departments could know whether the vehicles actually exist, where they are or their condition.

23.331 In 7 Agencies there were no log books or vehicle history cards at all. Contrary to Motor

Traffic Regulations, vehicles with private number plates and tinted glass were common and fuel consumption was excessive – according to the Auditor General.

PAYROLL – SALARIES AND WAGES.

23.332 Human Resource management means the day to day management and administration of employee entitlem ents and payroll functions.

23.333 Salary and Wages costs represent the single largest item of expenditure – direct salaries comprise 20 per cent of the annual Recurrent Budget of the State.

23.334 This was an area attended by chaotic mismanagement. In past years, we have found virtually no control over the employment of staff or the payment of their entitlements and that has not changed in 2007 – or in 2010.

23.335 Common problems were:

• No or no adequate approval and review processes;

23.356 We have no doubt that this failure to provide information is not accidental. There is no better way to hide mismanagement and incompetence than to not report it.

23.357 Of all matters which have struck at the veracity of our Pub lic Accounts and our national development, this must be the most serious.

23.358 How can Government budget in the absence of this information? How can it understand the state of the Nation? How can service delivery and National Development be planned in any coherent fashion? How can policy be formed? How can Government know the effect or appropriateness of its policies and appropriations?

23.359 The answers are obvious.

23.360 These reporting failures have a further corrosive effect.

23.361 There has developed in Papua New Guinea, an acceptance that the Public Service is independent, unaccountable for its use of public money, immune to the operation of whatever accounting or reporting law is inconvenient to it and uncontrolled.

23.362 The Acting Chief Secretary told this Committee as much in this Inquiry when he said:

"The situation is basically that we have the basic rules of the game in terms of budget preparation and expenditure control. It is .....unfortunately we are not going by those rules and that is our biggest problem 11.

23.363 The net effect of the contempt with which Departmental Heads treat the requirements to report, is loss of Constitutional power and control by the Executive, the National Parliament and Government. The abuses that we have seen in Government entities and agencies at every level, are hidden behind a wall of impunity and immunity whi_ch in very large part, was created by the refusal to make reports and thereby, be accountable.

23.364 It is almost unbelievable that in a modern nation state, Government cannot know the planned objectives, achievements, requirements, progress, the state of service development and national development or the state of financial management in its own Departments because the Public Service refuses to report such matters.

23.365 Further, how can we expect to implement national plans such as Vision 2050, the 2010 Health Plan and other national developmental policies if the implementers cannot keep simple books of accounts and refuse to report their activities to Government and their employers - the citizens of this country?

23,366 Of all issues arising from this Inquiry, we advise the Parliament that the failure of our reporting systems is the most serious and one which requires immediate address - in particular in relation to the management of Trust Accounts and development Budgets by the Public Service.

23. 367 In order of priority, this thorough-going failure is closely followed by:

BUDGET CONTROLS.

23.368 The Auditor General offers the following succinct explanation of the need for competent lawful and accurate budgetary controls:

"An effective financial management environment is demonstrated by strong integration of budgeting with the entity's corporate plan, priorities and external accountabilities. Appropriations represent the primary source of revenue for all agencies. The Departments' efficient cash management and budgetary controls depend on accurate information on availability and funds requirement, as well as reliable procedures for tracking variances from its records against Department of Finance records in order to ensure that:

• Funds transferred by way of Warrant Authorities agreed with funds recorded at the receiving Department's PGAS Ledger;

0 Monthly reconciliations of Departmental expenditure and Department of Finance Ledgers are carried out to eliminate any differences and to reconcile with the Public Accounts Ledgers;

• Differences noted are communicated with Department of Finance and are promptly dealt with;

• Funds are spent within budgetary allocations".

23.369 Significant weaknesses and failures were identified in 2007. They were:

• In 17 of 18 Departments, there was no monitoring of expenditure at all.
• Departments do not employ Budget Officers.

• No Cashflow Statements are prepared on a regular basis, therefore no proper or adequate information can assist the Secretary to make informed financial decisions. More worryingly, there appears to be no concern at this failure. We could not identify any attempt to rectify these inadequacies.

• There were significant variances of actual spending compared to cash available – 7 Agencies actually overspent their warrant authorities. This chaotic situation means that funds have been in the excess of the appropriation limit and it is a breach of the Appropriation Act, PFM Act and the Constitution.

• Incorrectly charged expenditures to Vote Items to which funds were not appropriated. Funds were transferred between Divisions and functions contrary to the Appropriation Act, to deal with this primary failure.

• Section 27 of the Public Finances (Management) Act 1995 was constantly breached. Unspent funds were transferred to Trust Accounts or cheques drawn in favor of the Department which were subsequently cancelled and

Offices. We find no plan or proposal to address the issue in the response from the Department of Finance, but we assume that the Department accepts and is addressing the problem.

We expect to see considerable improvement in future years.

No regular monitoring and review by the Department of Finance on the work of the Provincial and District Treasury
– together with timely corrective action.

• The Department of Finance responds by invoking funding problems for physical visits to Provinces and Districts and remoteness and poor communication infrastructure.

• We are pleased to learn that Finance is improving its communication system with the acquisition of a new V SAT System which should enable the Department of Finance to instantly communicate with and oversight it 's remote officers.

This is a very sound innovation and one that we believe is long overdue.

There is no adequate risk assessment, planning, manpower .o r funding to undertake Internal Audits by the Internal Audit Unions within the Provincial Government.

• In 2009, the Department of Finance issued Finance Instruction l/ 2000 establishing Internal Audit Units and Committees. Nine Committees have been established in

National and Provincial Departments. This is an excellent and long overdue development.

Unfortunately, by 2009 the Audit Units in the National Government Departments were unfunded, under-funded, had no Audit Plans or Manuals and had achieved very little.

We have reported this situation to the National Parliam ent in our Report on the Part II Report of the Auditor General 2009

It is our firm conclusion that Internal Audit Committees are meeting substantial resistance to their activities. This should be addressed by the Department of Finance immediately. The system can only work where there are adequate plans and the execution of Audit programs is properly funded and properly understood by all part ies .

To 2009 we agree with the finding of the Auditor General to the effect that Internal Audit work thus far indicates a general lack of any risk assessment, no Internal Audit Annual Plans, a lack of adequate funding and capability to undertake Audit reviews.

The National Parliament and the Government must address this issue as a matter of priority to ensure that Internal Unit's capability is properly funded and resourced.

In summary, the Department of Finance, in its responses to the Report of the Auditor General for 2007, shows that

it has finally read, understood and accepted adverse findings and is prepared to address those matters.

23.393 This is a very encouraging development and one that we will be closely considering in our 20008/2009 Public Account Inquiries.

24. GOVERNMENT FINANCIAL FRAMEWORK REVIEW.

24.1 In the course of this Inquiry, the Committee sought and received evidence from the Acting Chief Secretary and the Secretary of the Department of Finance concerning reform and rebuilding of accounting systems and performance.

24.2 Such evidence was corroborated by subsequent Committee investigations.

24.3 It is important for Members to understand that the evidence relates to 2010 and 2011 - not 2007.

24.4 The same evidence had been sought in past years and elicited empty assurances of assorted plans and projects that our subsequent Inquiries showed to be untrue. That situation may be changing.

24.5 The evidence was twofold. Firstly, we received very candid evidence from the Acting Chief Secretary which we have already considered in the body of this Report.

24.6 That evidence showed that our prior reports and recommendations had been read and understood – at least by this Officer and that was an unprecedented and encouraging sign.

24. 7 In past years, senior officers of the Public Service and Heads of Department clearly had not read and were largely disinterested in the work of this Committee and its recommendations.

24.8 Equally, they were disinterested or careless of the state of their own Departments, seeming to have little or no interest in the quality of accounting and corporate management for which they were responsible.

24.9 Although we could not detect any improvement or attempt at improvement by any Department or Government agency in 2007, the was a clear change in the way that the Departments of Treasury and Finance addressed the Part 1 Report of the Auditor General in that year.

24.10 In past years, Departmental responses (when they were made at all) were cursory, dismissive and misleading. It was clear that Departments were not prepared to be called to account for their failures.

24.11 Likewise, the responses to the work of this Committee were equally contemptuous. Evidence was frequently found to be untrue, disingenuous, self serving or unresponsive. Departments (particularly Finance and Treasury) simply refused to cooperate at all and breached every undertaking they ever made to the Committee,

24.12 Indeed, in this Inquiry the Secretary for Treasury, Mr Simon Tosali, ignored a Summons to Appear before the Committee – not for the first time.

24.13 We are pleased to report that the attitude of the Department of Finance to this Inquiry was different. The Secretary, Mr Gabriel Yer, appeared only after Committee threatened to have him apprehended and brought to the Inquiry, but seemed uncharacteristically prepared and helpful when questioned about Departmental reforms.

24.14 Committee has concluded that, in 2010, the Department of Finance, although unable to explain the failed Public Accounts in 2007, had commenced reviews and reform planning intended to address failed Government accounting and fiscal oversight.

24.15 Further inquiries by Committee have revealed the scope of this Review.

24.16 We can report:

1. The Department of Finance, or some of its officers, have finally read and understood the serious findings of this Committee and of the Auditor General concerning the failure of accounting and fiscal management across the entirety of Government.

2.. The Department has initiated a Financial Framework
Revie w intended to address and reform the three elements of financial management, viz:

(i) accountability and controls;

(ii) information and reporting;

(iii) management and resources and risks.

3. This Review addresses only one of the recommendations of the Committee i.e. that the Public Finances (Management) Act and Financial Instructions should be reformed and modernized.

4. Initial meetings of the Working Group have occurred in 2011 and a copy of the Working Papers for those meetings are annexed to this Report (Schedule 3) for the information of aJI Members.

5. The Committee has stated its intention to periodically consider the progress of this Project which we consider to be one of considerable national importance.

6. The draft Terms of Reference for the review are:

"FINANCIAL FRAMEWORK RIEVIIEW WORK J[N G GROUP _D RAFT TERMS OF REFERENCE_ .

1. Membership
Chair: Department of Finance Committee Members: Department of
Treasury, Department of Prime Minister & NEC, Department of Personnel Management, Department of .Justice, Office of the Auditor General, Office of the State Solicitor, Central Supply and Tenders Board, Department of National Planning and Monitoring, a

4. Procedures

The Working Group will consider matters as set out in its terms of reference or as requested by Finance, taking advice as appropriate.
Notice of each meeting confirming the venue, time and date together with anagenda of items to be discussed, shall be forwarded to each member of the Working Group, no later than5 working days before the date of the meeting.
Working Group members may invite observers to attend meetings.

5. Minutes

Minutes of meetings will record those present, the date and any decisions, action points or recommendations.
Draft minutes will becirculated to all members of the committee, no later than 1O working days before the date of the next meeting."

7. The review is in .it s very early stages. It is intended to:

" ••••improve effectiveness of the Government financial management fram.e w o r k by analyzing

the PFMA and recommending changes, updating all financial management guidance, recommending mechanisms to improve understanding of and compliance with the framework and identifying areas for further work to ensure ongoing improvement to the framework".

8. The objectives of the review are to:

• "strengthen accountability and controls by:

- ensuring that there is appropriate authority and guidance to support decision making about the expenditure of public money and management of public property;
- supporting all officials in all public bodies to understand and comply with the requirements relating to the useof public resources;
"' empowering senior government officials (including Provincial Treasurer's) to establish internal controls to support the efficient, effective and ethical use of public resources;
- establishing appropriate sanctions and penalties;
• improve information and reporting through:

- specifying the requirements for timely, comparable, reliable and relevant financial management information from all government bodies;

• enhance management of resources and risks by:

- helping the Government to make effective and economical use of its resources, through improving the requirements relating to the collection, tracking and remittance of all public money; and
supporting the Government to better manage risks and safeguard public resources through improved procurement and management of all public assets."

9. Committee has reviewed the methodology and structure of the proposed legislative review and finds those proposed approaches to be relevant, responsive to immediate needs and consistent with developmental and fiscal policy.

10. For many years this Committee has recommended the reform and modernization of the Public Finances (Management) Act 1995 and the Financial Instructions to give control and accountability over many areas of uncertainty.

11. Finally, it seems that planning for these changes is occurring. We wholly support the structure of the Review which commences with an analysis of the PF(M)A. We summarise the heads of

analysis thus:
• Accountability and controls;

o definitions and terminology;
o roles and responsibilities;

o delegations;
o government bodies;
o requirements for provincial and local-level governments;
o budget controls
o the public accounts committee;
o audit committees;
p finance inspectors;
o penalties and offences;

• Information and reporting;

o financial statements;
o bank acquittals/reconciliations;
9 monthly reports;
o estimates;
o quarterly reporting;
o budget reporting;
o performance agreements;
o annual reports;

• Management of resources and risks;

principles for the management of public money;
. loans, investment and banking;
- debt and fee management;
- cashflows;
- prepayments;
- appropriations;
- Trust Accounts;
- Warrants;
- expenditure approvals;
- principles for the management of public property;

- procurement;
- contracts;
- asset management.

12. Review of the Financial Instructions will be made on four principles. They are:
•. Appropriate authority;

- for example, is the content consistent with the PFMA? Was the Instruction approved and issued by the appropriate person consistent with the PFMA?
• Relevance;

- for example, does the Instruction duplicate other guidance? Was it developed on a time limited subject?
-. Timeliness;

- for example, has it been superseded by new guidance?

., Suitability;

- for example, is the Instruction technically accurate? Is it readable? Is there consistency of messages?
13. One aim of the Finance Instructions reform is to reduce the number of current Instructions by one third, from ninety-five to less than thirty, The remaining Instructions will be updated, reissued, and posted on the Finance Website.

14. Timing of the review proposes that by December 2011, approved recommendations will be disseminated and changes will be introduced.

15. The Review also recognizes the need for implementation mechanisms. Under the heading "Further Work" theteam state:
"Following the approval of changes to the PFMA there will bea need to:
• develop and implement a new communication strategy to support dissemination of the changes to the framework;
• issue new information products in easy to update formats, such as a new Financial Management Manual;
• ensure all framework documents are available on the Finance website and updated on an annual basis;
• provide training to key staff, such as Provincial Treasurers and senior managers in Government Departments;
• update financial information systems to reflect any changes, such as new or revised reporting requirements;
• establish new business processes to answer queries on the framework;
• assess the need for additionalr esou rces, such as creation of a new Branch within Finance to develop guidelines on creation of government bodies and provide ongoing governance advice and support;

that failure is compounded by the apparent careless disregard of the findings and recommendations of both the Auditor General and this Committee by the National Parliament, the Executive, the National Executive Council, Heads of Departments and their officers, the Ombudsman, Police and every other responsible agency of Government.

25.3 This state of affairs cannot continue. The Law is ignored, Appropriation Acts and the Constitution breached, responsible officers are immune to the rule of law, statutory duties and responsibilities are ignored and incompetence, mendacity and fiscal mischief continues with seemingly no fear of detection or consequences.

25.4 As we have stated, the result of this chaos is a stalled national developmental agenda, failed service delivery, collapsed infrastructure and a government that serves only a small. minority of our citizens.

25.5 It is clear that the disintegration of our systems of fiscal management and accountability evident in 2004 continued into 2007 and, we predict, into 2011.

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

25.7 The Committee has carefully considered the evidence and we can only conclude that the situation in 2007 resulted from 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.

25.8 We say this because the Executive Government is vested with responsibility to formulate budgets and effective management, control of, and accounting for, public monies. If this responsibility is met, responsible fiscal management and application can be expected to follow.

25.9 The Executive has failed in this role for many years and the Public Service have moved into that vacuum and assumed fiscal power and discretion that it does not have.

25.10 This shift in power is very largely responsible for the failed accounting system, fiscal misconduct and stalled service delivery that we now see.

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

- Overspending by Departments resulting from the inability of the Department of Finance to control public spending – notably in its own Department.

- Ministers failing to demand Agency Heads be responsible for transparent and compliant spending of Agency budget allocations;

- Considerable abuse and diversion of public monies that goes undetected and unpunished;

- A large and seemingly uncontrolled increase in the number of Section 32 Officers who are authorized to approve expenditure. This merely increases the pressure points for the application of blandishments, threats and intimidation for payments to be made. Only persons of proven moral and intellectual qualities should hold such designations.

- There is a real lack of qualified Finance Officers in every Department and agency, but particularly in the agenc ies 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 managem nt 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.

• Failed reporting obligations by the Public Service

25.12 However, in this Inquiry, the evidence of the Acting Chief Secretary to Government identified more basic causes for the inability of Government agencies to maintain even basic accounting records.

25.13 His evidence is accepted by the Committee and corroborates our findings in previous Reports.

25.14 In particular the Acting Chief Secretary stated that officers across all Government agencies had little or no idea what they were supposed to be doing and no understanding of how to perform their duties.

25.15 Incompetence and ignorance - even at very senior levels of our Public Service - were identified as major causes for the failure of accounting systems.

25.16 The Committee accepts this evidence. The incompetence may be the result of poor or no training, but if so, why do these officers have their positions at all and how do they keep them?
25.17 How and why were they employed in the first place? If they cannot perform or do not know their duties and functions, what do they actually do and why have they not been replaced?

25.18 The answer from the Chief Secretary was frank and, we believe , correct.

25.19 He told this Committee that 11forty percent" of Heads of Department although non-performing, were immune to the operation of law, colluded with Ministers and other officers to maintain their positions despite their non-performance and that they could not be removed by him or any one else.

25.20 This evidence describes exactly what this Committee found in previous Inquiries – particularly into the Department of Finance and the Public Accounts for 2004 – 2006.

25.21 Organised and protected misconduct, illegality, financial mismanagement and incompetence free of duty, responsibility and accountability – at the very highest level of the Public Service and confirmed by the most senior public servant in the country.

25.22 This situation has caused our national Public Account to become corrupted to the point where it is little use and incapable of any acceptable audit examination.

25.23 The effects of this situation are manifold.

25.24 If Appropriation Acts and other laws are ignored, the will and power of the National Parliament is subverted. The Auditor General was referring to this in 2009 when he stated to Committee:

.,•... "the practice exposes the Parliament to the risk that Public Servants can usurp the authority of the Parlia ment" .

25. 25 If the Constitutional financial schemes are ignored or fail by reason of neglect and refusal to implement them, the Rule of Law is of no effect.

25.26 Our Constitutional systems of accountability, the sovereign power they implant in the Executive and the strict duties, accountability, purpose and function of the Public Service are eroded and power is assumed by those who have no right to it.

25.27 Our finding in 2004 when we reported to the National Parliament, was:

".......,.. ..... the Department of Finance had, by 2004, arrogated to itself sovereign power over the use and application of public monies, often in open defiance of Appropriation and Government policy and directive."

25.28 Further, our oversight and enforcement agencies have failed to curtail or reverse this development.

25.29 Further, mandatory merit based systems of appointment and removal have failed and are of no effect unless they can be enforced – which the Acting Chief Secretary tells us, they cannot.
25.30 Neither the Public Finances (Management) Act nor the Financial Instructions are complex or difficult to understand. Yet only ten of over a thousand agencies of Government can make, keep or maintain financial records sufficient to receive unqualified audits.

25.31 This must mean that systems of selection, .induct io n, training and oversight or monitoring have also failed at every level. We remind Members that the failures extend through all of Government right down to Districts.

25.32 Further, if the evidence of the Acting Chief Secretary is correct (and we accept that it is), there has developed a caste of untouchable elites not subject to Law, not required to perform their duties, not required to meet any standard of performance, free of any need to earn or hold their positions on merit but with absolute, unaccountable and unfettered control of public monies, property and stores – including Trust Accounts, development budgets and service funding.

25.33 Failure to control these officers and their patrons has resulted in the current sorry state of governance, administration, service delivery and National development.

25.34 The National Parliament and successive Governments simply do not seem to have understood the seriousness of the situation.

25.35 If Departments and agencies cannot reconcile a simple internal bank account, keep asset registers, obey the law, keep Trust account records and reconciliations and other simple, basic accounting tasks, what hope have they of managing Development Budgets, Vision 2050, the 2010 Health Plan or anything else?

25.36 Until the core attitudinal problem is solved, the standard of service delivery and governance will remain as it is (or worse), despite the attempts to modernize the Financial Framework, for the simple reason that to be effective, the law must be enforced.

25.37 We emphasise that although this Report deals wit h the Public Account in 2007, the evidence of the Acting Chief Secretary is current to December 2010.

25.38 The situation with Trust Accounts is no better.

25.39 The system of Trust Accounts established by the PF(M)A has failed to ensure either the proper and lawful handling of public monies or to effect Government policy – especially development and service delivery.

25.40 Trust Account accounting by Trustees and responsible officers had collapsed by 2007 and has not improved since.

· pu blic monies misappropriated on a huge scale. This situation prevails in 2011.

25.56 Trust Instruments, when they can be found, are poorly drawn, often ambiguous (where they make any sense at all) and often outdated.

25.57 Trust Accounts which had been closed are still operating.

25.58 Trust Accounts which had been unused for years are still open.

25.59 Trust Accounts recorded as having a nil balance actually had funds at bank.

25.60 Trust Accounts shown as having balances at bank actually had nil balance.

25.61 By 2007, the very Department responsible for proper and lawful administration of Trust Accounts and accounting functions, the Department of Finance had, as a matter of course, engaged in illegal, unconstitutional and significant mishandling and application of Trust Accounts and funds under its control.

25.62 Those agencies, the Auditor General, this Committee and fiscal governance in general has been hostage to intentional, planned and deliberate refusal to act lawfully and to account properly (or at all) for the use of public monies – in particular the huge amounts in Trust Accounts – by the Public Service who, by 2007, had abandoned any pretence of lawfully managing Trust Accounts for the National good.

25.63 That Government should 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.

25.64 Law enforcement systems and agencies intended to control and account for Trust Accounts and Trust funds had, by 2007, failed. This failure continues currently.

25.65 Trust managers were clearly incapable of understanding their duties. This situation continues currently.

25.66 The refusal and failure to keep records, make reconciliations or accounts of Trust Accounts or funds was intentional. This had, by 2007, lead to huge misappropriation, mishandling and diversion of funds to non-appropriated purposes.

25.67 This misconduct was so significant that it has derailed National service delivery and National development and very largely rendered Government impotent to effect its plans and policies. In many ways, this single collapse of accountability has, and continues to, impoverish and marginalize many of our citizens through failed health, education and other service provision.

25.68 The Committee therefore makes a series of recommendations in this Report to reassert our financial systems for the benefit of all our citizens who, after all, own the money collected and spent by Government every year.

25,69 The Committee urges Members and Government to read, understand and apply the recommendations of the Auditor General and the Committee and create policy to address the issues for our National benefit.

26. RESOLUTIONS OF THE COMMITTEE.

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

1. This Report is accepted as the Report of the Committee.

2. The title of the Report is approved in the form:

"REPORT OF THE PERMANENT PARLI A MENTAR Y COMMITTEE ON PUBLIC ACCOUNTS ON AN INQUIRY INTO THE KEEPING OF THE PUBLIC ACCOUNTS OF THE GOVERN MENT OF PAPUA NEW GUI NEA FOR THE FINANCIAL YEAR 2007."

3. The appendices in Schedules to the Report are approved.

4. There is no dissenting Report.

5. The Committee will make this Report to Parliament under Section 86 (1) (c) and (d) Public Finances (Management) Act 1995 with findings and recommendations concerning the Part 1 Reports of the Auditor General for the financial year 2007.

6. That the Committee accepts the findings of the Office of the Auditor General in respect of the Public Accounts in the

Part 1 Report for the financial year 2006, and will report to Parliament on necessary changes to the keeping of the Public Accounts as set forth in Section 86 (1) (d) (i – iv) of the Public Finances (Management) Act 1995.

7. To accept and endorse the recommendations in Para. 27 hereof.

8. To accept the qualifications and limitations on audit found by the Auditor General.

9. To reject the Public Accounts for the financial year 2007 as unreliable, incomplete or not based on proper records or accounts.

10. To reject the Public Accounts for the financial year 2007 as not giving a proper, true or fair view of the financial operations or results of Government.

11. To censure Heads of Department and all other accountable Officers for failing to keep, make or submit lawful, timely and accurate financia l accounts, records or reports in 2007.

12. To censure Heads of Departments and all other accountable Officers for failing to obey or breaching the Public Finances (Management) Act 1995, the Constitution, the Financial Instructions and/or Appropriation Acts.

13. 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 2007.

14. That the Chairman brief the Minister for Finance and the Prime Minister on th.e findings and resolutions of this Committee.

15. The Committee resolve that this Report will be sent to the Minister for Finance and Treasury and the Prime Minister with a recommendation for urgent att ention to its contents.

16. The National Parliament should debate the findings and the overall issue of financial mismanagement and failure of the Public Service to account for its use of public monies, property and stores.

17. 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.

18. The Committee resolve that the PAC will consider the 2008 and 2009 Part 1 Reports of the Auditor General as soon as possible and report to the National Parliament as a matter of urgency.

19. 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,

20. 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 2007 and should be replaced.

21. 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.

22. In the a.lternative, trust accounts and their management should be moved to the Bank of Papua New Guinea pending the establishment of competent and experienced trustee management.

27. RECOMMEN DATI ON S.

General:

27.1 This Committee recommends that:

1. The findings and resolutions of the Committee, to be effective, need to be actioned by the Government, without delay.

2. The Government accept this Report, debate same and immediately begin the process of reform and the reestablishment of the Constitutional fiscal scheme.

3. The National Parliament immediately move to rectify the collapse of accountability for the use and application of public monies by the Public Service.

4. The National Parliament immediatel y reassert the Constitutional system of fiscal management by the Executive.

5. The National Parliament immediately reestablish and enforce the Constitutional fiscal powers and responsibilities which are the sole province of the Executive.

6. The National Parliament re-establish the polit ical 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..

7. 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.

8. 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 fulfill its Constitutional duty in this regard.

9. 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.

10. 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.

11. 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.

12. The National Parliament accept that, by 2007, the Constitutional system of public fiscal accountability had collapsed and that misappropriation, misapplication and illegal and improper handling of public monies had become an incident of Governance in Papua New Guinea.

13. The National Parliament accept that sections of the Public Service had, by 2007, arrogated to itself sovereign power

over the use and application of public monies, often in open defiance of Appropriation, Law 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 the Public Service, by 2007, were without control or oversight in their fiscal management and acted with impunity and immunity in their handling of public monies.

16. The National Parliament accept that the major agencies responsible for fiscal management, by 2007, acted just as they wished in respect of public monies and, in many instances, in direct defiance of Law, Constitutional requirements and Government policies and appropriations.

17. The National Parliament accept that, by 2007, there had developed a culture of impunity for Public servants in their dealings with and application of public monies such that the Public Accounts of the Government pf Papua New Guinea were rendered unreliable – at best.

18. The National Parliament accept that there is a collapse of law enforcement in the application of, or obedience to, the Public Finances (Management) Act 1995 and every other dictate of Law relating to fiscal accountability across the entire span of Government.

19. The National Parliament accept that the Auditor General and the Public Accounts Committee are, as a matter of routine, treated with contemptuous disregard by the Public Service – and in particular by the Department of treasury which refuses to co-operate with or assist Committee inquiries.

20. The National Parliament accept that, by 2007 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 Agency could, 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 2007, (or 2010), 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, failed Public Accounts 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 Parliam nt 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. The National Parliament must accept that there is no more urgent issue of national importance than the collapse of fiscal accountability and the attendant collapse of law enforcement that has allowed this to occur.

28. Government should seek assistance and expertise wherever it can to replace failed and non performing officers, failed systems and intentiona l refusal by officers of the Public Service to act properly and lawfully.

29. The Department of Finance be brought under control and be made accountable. The Department could not and cannot control public spending or fulfill even basic accounting tasks. Government should seriously consider degazetting the Department and replacing it with a

specialised accounting and fiscal agency to guide and implement development and service delivery budgets.

30. The Department of Finance be forced to perform its duties to oversee and enforce accounting standards in Government. If the Department Head and senior managers will not perform their duties, they should be replaced.

31. Power to expend monies be removed in whole or in part from the Department of Finance pending restructuring of that Department.

32. 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 privat e enterprise and/or from overseas if the necessary expertise cannot be sourced in Papua New Guinea.

33. Decentralised accounting has failed. No agency or Department of Government has the expertise or capability to account for the use of or transactions with public monies. Either the devolution is reversed and made the task of a specialised and effective independent agency or a very significant training and oversight effort must be injected into public accountability at every level of Government right down to LLG, District and Board level - and even then, we doubt that decentralized accounting can succeed.

34. Government must adequately and properly fund the Office of the Auditor General and the Public Accounts Committee as the Constitution requires.

35. The NEC should reassert its power and those powers and its control of public monies, should be reasserted by whatever means may be required.

36. Every senior public servant who has failed to co-operate with this Committee and/or with the Auditor General should be disciplined in accordance with law.

37. That Government immediately recruit, deploy and adequately fund and resource Internal Audit Units in every agency of Government.

38. That Law Enforcement agencies be immediately revitalized, improved, properly staffed and

resourced and adequately funded to deal with financial failure and fraud in Government.

39. Proven interference with the discretion or duty of a Trustee should be met with a deterrent punishment.

40. That the recommendations of the Auditor General made in his Part 1 Report for the financial year 2007 be accepted and actioned by Government by any means lawfully available.

41. Accounting processes in all agencies should be reviewed and modernized or reformed in accordance with recommendations by the Auditor General.

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

55. The Government should effect specialized legislation to deal with illegal conduct by Public officers and proclaim draconian punishment therefore.

56. The Committee system of the National Parliament needs immediate revitalization. The National Parliament would be greatly assisted and much better informed by a fully working Committee system.

57. The IRC should be modernized and given wide power to investigate and prosecute for tax fraud or avoidance. The IRC is a significant weapon in the anti-corruption arsenal of Government and should be used as such. Thus far the Commission has avoided this aspect of its functions.

58. 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.

59. Interference with or refusal to obey or effect Appropriations made by the National Parliament, should be met with severe penalties.

60. The culture of impunity attending failure and malpractice in our Public Service should be addressed imm ediately . There

is no fear of detection or sanction for fiscal mishandling - and there must be.

61. Senior management has failed to enforce standards of accounting required by Law and no analysis of capability has ever been conducted - this must change.

62. The Public Finances (Management) Act 1995 and Financial Instructions be updated and modernized.
63. The Audit Act 1989 be updated and modernized.

64. The Public Accounts Committee draft Bill be enacted to modernize and empower the PAC.

65. Ongoing training and supervision of accounting staff must be implemented and maintained at all levels of Government.

66. Departments and agencres 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 far l ure or refusal to comply with the requirements of the Public Finances (Management) Act 1995.

67. 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.

68. 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.

69. 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 stat us, they have failed completely to keep even basic accounts or records.

70. 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.

Clarification of the roles of the Ministers of Treasury and Finance.

71. Committee has long considered that the roles and responsibilities of the Finance Minister and Treasurer need to be clearly and separately defined in order to dispel uncertainty as to which Minister is responsible for various matters.

72. The current definitions in the PF(M)A reflect the roles and responsibilities when the Ministry of Finance and Treasury were combined. Now that the two Ministries are separ at e, the roles and responsibilities need to be separated and clearly stated.

73. Currently, there is no provision requ1rrng the Ministers to comply with the PF(M)A in discharging their ministerial duties. A provision needs to be created to establish obligation for the Ministers which will guide them to conduct themselves within the confinement of the PF(M)A and any other law.

74. The current Financial Framework Review has proposed certain statutory reforms to address this issue. Committee has perused and considered these suggestions and, although they require further refining, we agree with their principal thrust. The draft proposals as at the 15th April 2011 were:

"RESPONSIBILITIESAND POWERS OF THE FINANCE MINISTER:

Proposed Changes:

(1) The Finance Minister is responsible for -

(a) overseeing the finances of the State so as to ensure that a full accounting is made to the Parliament of all transactions involving public resources;

(b) providing directions and guidelines regarding the management of public resources by public bodies;

(c) the reporting of the public accounts of Papua New Guinea;

(d) accounting to the Parliament for the performance and financial management of Statutory Authorities;

(e) establishing controls and rules around state tenders and contracts; and
(f) administering this Act.

(2) As soon as practicable after the end of the first, second and third quarters of each fiscal year, the Minister shall publish in the National Gazette a summarised statement of the receipts and expenditure of the Public Account during the fiscal year up to the end of that quarter.

(3) As soon as practicable after the end of each 'fiscal year, the Minister shall cause to be prepared a detailed statement of the receipts and expenditure of the Public Account during the fiscal year and shall send it to the Auditor? General.

(4) The Finance Minister may require Departmental Heads to submit additional financial reports and records on such matters andat such intervals as he determines.

3. Further, it is an extraordinary fact that neither Head of Department is required to comply with the Public Finances (Management) Act 1995 in the exercise of their duties - if they can even understand what they are supposed to be doing under the current definitions of their positions and duties.

4. It is entirely possible that the evident lack of control over the handling of public money, property and stores and the failure to enforce accounting standards and requirements is contributed to by this confusion.

5. If we are correct in these conclusions, reform and clarification are urgently required, if for no other reason than to impose positive obligations on the Department of Finance to enforce accounting requirements and to regain some degree of control over the use of and accountability for public money.

6. Committee is pleased to note that the Financial Framework Review is addressing this matter. The draft proposals of that Committee are:
"Proposed Changes:

RESPONSIBILITIES AND POWERS OF THE FINANCE DEPARTMENTAL HEAD

(1) The Finance Departmental Head is responsible for undertaking functions that assist the Finance Minister in the implementation of his/her responsibilities under Section 3, consistent with

this Act and subject to specific directions given to him/her by the Finance Minister.

(2) The Finance Departmental Head has control and direction of all matters relating to the management of the financial affairs of the State andall public bodies, consistent with this Act and subject to specific directions given to him/her by the Finance Minister.
(3) The Finance Departmental Head may require Departmental Heads to submit financial reports on such matters and at such intervals as he/she determines.

(4) The Finance Departmental Head may direct full and free access at all reasonable times to all accounts and records of public bodies that relate, directly or indirectly, to-

a. the collection, receipt, management, expenditure or issue of public money;

b. the purchase, receipt, custody, disposal, issue
_public property;

management, or use of

and to inspect and inquire into and call for any information arising from those accounts and records.

(5) The Finance Departmental Head may direct the

establishment and operation of internal audit units and audit committees in public bodies or other entities that receive public money and are subjected to be audited by the Auditor? General. Specifically, he/she maydirect-

a. the laying out of the functions and the responsibilities of the Internal Audit Unit and the Audit Committee in accordance with any Financial Instruction issued under Section Jl 7;

b. a Departmental Head to ensure that Internal Audit Units and Audit Committees are effectively functioning; and

c. a Departmental Head to implement, comply with or action the findings and recommendations of the Internal Audit Unit or Audit Committee.

(6) Inthe implementation of the responsibilities specified in Subsection (J) and (2), the Finance Departmental Head may consult with the Auditor-General and the Departmental Heads of the Departments of the Prime Minister, Treasury, National Planning and Monitoring, and Personnel Management.

(7) The Finance Departmental Head may, where he/she has reason to believe that an official

has been or may have been in breach of this Act or the Organic Law on Provincial Governments and Local-level Governments restrict or suspend that official from all duties and responsibilities.

(BJ A Departmental Head who fails to submit a financial report when required to do so under Subsection (3), or fails to comply with a direction under Subsection (4) or (5), is guilty of an offence under Section JJ2 and may be subject to disciplinary action as decided by the Finance Departmental Head.

(9) The responsibility of the Finance Departmental Head under this Section is not derogated or reduced by reason of any delegation of functions by him/her to another person.

(JO) The Finance Departmental Head in fulfilling his/her responsibilities must comply with this Actandany other laws.

RESPONSIBILITIES AND POWERS OF THE TREASURY DEPARTMENTAL HEAD

(J) The Treasury Departmental Head is responsible for undertaking functions that assist the Treasurer in the implementation of his/her responsibilities under Section 4, consistent with this Act and subject to specific directions

given to him/ her by the Treasurer.

(2) The Treasury Departmental Head has control and direction of all matters relating to the formulation and implementation of the National Budget, consistent with this Act and subject to specific directions given to him/her by the Treasurer.

(3) The Treasury Departmental Head may require Departmental Heads to submit reports on budget and economic matters, at such intervals as
he/ she determines.

(4) The responsibility of the Treasury Departmental Head under this Section is not derogated or reduced by reason of any delegation Qf functions by him/ her to another person.

(5) The Treasury Departmental Head in fulfilling his/her responsibilitiesmust comply with this Act andany other laws. "

7. These proposed amendments require a great deal more refinement before they satisfactorily impose the duties and functions that these Officers should perform, but as a first draft proposal they show that the failure of a decade ago to ensure that statutory law was adequate to meet the challenge of split Departments is recognized and is being addressed.

8. Committee supports these proposals and intends to revisit the project in late 2011 to assess progress.

Definitions of public money and property:

1. As the economy and commerce has become more sophisticated and complex, there has been a need to modernize and update our statutory accounting laws. This has not been done for many years and uncertainty has arisen as to what constitutes public property, money or stores.

'1 The Department of Finance has proposed certain reforms to address these problems - and the Committee supports those proposals. They are:

"Proposed Changes:

"public money" includes all revenue raised, received, borrowed, held or controlled by a public body or a person acting on behalf of the State.
This includes all money received as a result of:
- taxes, fees, royalties or other charges; and

• bonds, debentures, shares, securities, term-deposits, or any other investments; and

Current Situation:

"accounts and records" include any accounts, deeds, writings and documents, and other records of information, whether compiled, recorded or stored by microfilm or electronic process or otherwise;
Proposed Definition;

"accounts and records" include any receipts, deeds, statements, writings, images, recordings, documents and other records of information, whether compiled, recorded or stored on paper, by microfilm, by electronic process or otherwise.

2. "The State" Current Situation
A definition of the word "State" does not currently exist in the PFMA.

Proposed Definition:

"State" means the Independent State of Papua New Guinea, as described in the Constitution of the Independent State of Papua New Guinea, and made up of the National Parliament, the National Executive Council and the National Judicial System..

3. "Head of State" Current Situation:
A definition of "Head of State" does not currently exist in the PFMA.

Proposed Definition:

"Head of State" means the Governor-General, appointed under the Constitution of the

Independent State of Papua New Guinea, who exercises and performs the privileges, powers, functions, duties and responsibilities of Her Majesty the Queen.

4. 11Public Debt" Current Situation:
A definition of "public debt" does not currently exist in the PFMA.

Proposed Definition:

"Public debt" means all liabilities of the State in respect of the repayment of moneys borrowed in accordance with or asauthorised by an Act of the Parliament.

This includes moneys borrowed by the State from commercial, public and private lenders both offshore and in-country

5. "Debt owed to the State"'

Current Situation:

A definition of "Debt owed to the State" does not currently exist in the PFMA.

Proposed Definition:

"Debt owed to the State" means all amounts owing to the State as a result of an agreement, a transaction or an Act of the Parliament.

This includes amounts owing in respect of moneys loaned or advanced to commercial, public and private borrowers from both offshore and in? country. It also includes amounts owing in respect of moneys overpaid to employees or entitlement recipients.

6. "Finance Minister"

Current Situation.:

A definition of "Finance Minister" does not currently exist in the PFMA.

Proposed Definition:

"Finance Minister" means the Minister who administers this Act.

7 . "Treasurer"

Current Situation:

A definition of "Treasurer" does not currently exist in the PFMA.

Proposed Definition:

"Treasurer" means the Minister responsible for the formulation and oversight of the National Budget on behalf of the National Government.

• These proposals are in a very early stage of development but do demonstrate to Members that fundamental problems are being considered and addressed. Much more is needed however. Therefore we recommend full funding
, ,and resourcing of the Working Group and the Review.

• Committee will periodically review the progress of these reforms and make further report to the Parliament on progress obtained.

Format of the Public Accounts:

1. There is a need for improved financial reporting and an improved format for the Public Accounts. The current system is voluminous and not easily read or underst ood.

2. An improved systematic approach to presenting Government financial information needs to be implemented.

3. We recommend a format or Report similar to that used by corporations in the Public Sector and/or public sector entities in other countries. This would allow a reader who is not an accountant to easily find and understand the information,

4. The "Financial Reporting under the Cash Basis of Accounting" standard is used by other countries and would seem to be suitable for Papua New Guinea.

5. Although the Department of Finance has issued instructions for Departments to use this standard, the Department does not seem to use it itself and it should.

6. Timely reporting and auditing of Public Accounts receipts and expenditure would assist the Parliament in its assessment of the finances of the State.

7. Rather than allowing the Minister for Finance to provide a detailed statement of receipts and expenditure as soon as possible after the end of the fiscal year, the PF(M) A should require these statements to be produced by the end of March to allow audit by the end of June.

Modified cash basis of accounting:

1. Revenue and expenditure are accounted for by Government on a cash basis i.e. when the cash is received and not when revenue is earned or expenditure incurred. Cheques are accounted for when raised and issued – not when the cheque is presented at bank. However, the Department of Finance applies a modified cash basis of accounting – contrary to the

publicly disclosed accounting policy. This distorts the Pub lic Accounts and should not be permitted.

Delegations:

1. The current provision on delegation of powers from Minister to Finance Departmental Head, and

Finance Departmental Head to other Departmental Heads, and Departmental Heads to other persons (S.5 and S.26 and S.110 of the Public Finances (Management) Act 1.995), do not set out or have no clear prerequisites for delegation. Hence, there is a need to enact clear requirements in the new frameworks to include clear delegation requirement.

2. The following reforms and amendments are recommended by the Department of Finance and this Committee supports them:

"Section 26. DELEGATION

{1.) The Finance Minister may, by written instrument, delegate to the Finance Departmental Head some, any or all of his powers under this Act. In delegating his powers, he may specify any limits and/or conditions on the exercise of those powers or performance of those functions.

(2) The Finance Departmental Head may, by written instrument, delegate any of the following

powers and functions to one or more Departmental Heads:

(a) a power or function that has been delegated to the Finance Departmental Head by the Finance Minister (other than the power of delegation); or

(b) the Finance Departmental Head's power or functions under this Act (other than the power of delegation)

(3) If the Finance Departmental Heads is subject to any limits or conditions in relation to the exercise of a power, or a performance of a function, he must impose those limits and conditions when delegating that power or function under Subsection 2(a).

(4) If the Finance Departmental Head delegates a power or function to one or more Departmental Heads and it is not a power or function that has been delegated to him under Subsection (1.), he may specify any limits and/ or conditions on the exercise of those powers or performance of those functions.

(5) A Departmental Head may, by written instrument, delegate to any of the following officials, some, any or all of his powers or

functions (other than the power of delegation) under this Act.

In delegating his powers, he may specify any limits and/ or conditions on the exercise of those powers or performance of those functions.

(6) In exercising powers or performing functions under a delegation, an official must comply with any limits and/ or conditions contained in that delegation.

(7) The delegation of powers under subsection (1.),

(2) (3), (4), and (5), the written instrument must be gazetted in the government gazettal.

Rationale for Change

The current delegation of power under Section 26 relates only to Finance Minister delegating his power to re-allocate unexpended appropriations. It does not provide for, or clarifying the requirements in delegating powers from the Finance Minister to Finance Departmental Head and from Finance Departmental Head to other Departmental Heads.

Section 1.1.0 provides for a Departmental Head to delegate all or any of the powers and functions under the PFMA. Currently there are no

requirements surrounding the delegation of these powers.

The proposed changes group all delegation provisions together in Part II of the PFMA and clarifying the requirements relating to delegation at all levels. The changes clearly show which powers and functions can be delegated and include the requirement that all officials must comply with any limits and conditions when exercising powers or performing functions under a delegation.

The current practice is that in all delegation the written instrument is gazetted in the government g;izette but is not stated in the Act, therefore we though Subsection 7 should be inserted to make the current practise to become legal for the purpose of this act."

3. Notice and a copy of the written delegation instrument should be published in the National Gazette.

4. The limit of delegation powers in monetary values applicable to different level of officers, such as Deputy Secretary, First Assistant Secretary, Assistant Secretary etc should be detailed in the Finance Management Manual, and or Finance Instruction and advertised annually in public print media.

5. A Register of Delegations must be maintained by the Department of Finance and updated monthly or as soon as any new or amended delegation is made.

6. Section 26 of Part V of PF(M)A should be moved to Part II of the PF(M)A.

7. Section 110 of Part XII PF(M)A should be removed as it replicates Section 26 - delegation of powers by Departmental Head.

Control over Appropriation limits:

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

• The new Financial Management System currently under development at the Department of Finance should have in built controls to prevent payments over appropriation limits.

• Senior management of the Department of Finance should be held accountable for overspending appropriation because overspending by entities results from a failure by those officers to control public spending.

.o There should be regular monitoring and review of budget implementation together with timely corrective action by the Department of Treasury.

2. Budgetary framework should include a programmed supplementary budget process which would allow ent it ies to

submit requests for mid-year funding for unforeseen circumstances.

Transactions after the end of the accounting period:

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

2. The Department of Finance should be required to reconcile clearing accounts each month so that outstanding amounts are cleared promptly.

3. Government must, by any and all means available, demand and enforce accountability of senior managers to act on recommendations made by review bodies, including internal and external audit and audit committees. Those off icers who refuse to cooperate or who do not perform to an acceptable standard should be removed.

4. Audit units must be immediately deployed and properly resourced at all levels of Government to oversee and enforce accountability and lawful handling of public monies.

Trust Accounts:

I"' The law concerning the establishment, management of, accounting for and controlling of Trust Accounts needs urgent modernization and reform.

2. The current laws controlling Trust establishment, management and control in the PF(M)A, was and is ignored by Trustees and is ineffective and outdated.

3. Penalties for mishandling of Trust funds or Accounts are inadequate and need substantial reform.
4 A culture of impunity has developed in the Public Service
behind which unelected and unaccountable individuals access and misuse public and Trust monies. This must be ended immediately.

5. Trustees should be persons of the highest repute and proven probity who understand their duties, act independently and exercise their discretion in accordance to precise rules and stated intentions. Trustees appointed to manage Government trust accounts do not meet these requirements.

6. Considering the chaotic, dishonest, incompetent, corrupt and failed mismanagement of the system of Government Trust Accounts that existed in 2007 and for years before that (and that exists still), Trust Accounts or at least monies appropriated for development and service delivery should be removed from the Public Service pending reform of that entity and given to a specialized Trust agency constituted by persons of proven expertise, independence and probity guided by precise Trust Rules and charged with properly and fruitfully implementing Government development and service delivery policies and the appropriated funding therefore, by lawful and accountable management of Trust Accounts.

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

7. Government should consider placing all Trust Accounts with the Bank of Papua New Guinea but with modern and effective controls and controlling statutes and Instructions.

8. Government should consider whether Trust Accounts are the proper and responsive mechanism to effect lawful application of public monies. The current system established by the PF(M)A does not establish true Trust Accounts or a real Trust relationship with appointed Trustees as those concepts are known to Law or the controls and trustee liabilities that are so badly needed. We recommend that the method of conduiting money from Government to service and development be substantially re-considered.

9. Royalty Trust Accounts have been significantly abused by Trust managers / signatories and public servants in 2007 and to the present day. We recommend those officers be individually investigated and where appropriate disciplined, charged" removed and replaced and/or surcharged where appropriate.

10. Government should immediately remove Royalty Trust Accounts and every other Trust Account that contains or administers money held for Landowners or resource owners from the Public Service and vest those accounts in a specialized, independent, expert agency operated by professional, educated, experienced and honest Trustees.

11. A full account be called for of all funds which are or have been held in Royalty Trust Accounts to establish their use and whereabouts.

12. Fault for the failure of Trust Account management lies not only with those citizens who have abused and misappropriated Trust monies. It was also a direct result of a failure of governance, oversight and control by the Executive and the National Parliament to fulfil their Constitutional duties and roles.

13. Trustees or signatories responsible for any failure of accounting or proper management of monies in Trust Accounts should be removed, prosecuted and never again be allowed to handle public monies - and certainly not Trust monies.

14. Trustees should be independent of the Department or agency that administers the Trust Account and should never be Head of the responsible Department - in particular the Department of Finance. Professional Trustees who understand their responsibilities and can

manage Trust funds should be the only persons permitted to act as Trustees of Public monies.

15. Government Trust Accounts should be real Trust Accounts as that term is known to Law – with Rules, and Trust Instruments which are comprehensible and lawfully effective to protect the Trust, account for monies and control the Trustees.

16. Trustees, before they are appointed, be subject to tuition and testing to establish that they understand the obligations, duties and legal position of a Trustee and the obligation to properly

9. DSIP controls and instructions be enforced and constantly monitored. National Government Departments charged with implementing and maintaining these controls should be forced to do so – or the duties removed from them and given to agencies which can perform those duties.

10, The consultation process between all concerned agencies and the Office of the Auditor General intended to address weaknesses and failures in Provincial and Local-level Governments, should continue.

11. The delays in making and submitting financial statements by Provincial Governments, Hospital Boards and commercial arms must be addressed immediately by the Department of Finance.

12. The Department of Finance must insist on accurate and proper information in financial statements by all Provincial and Local? level Governments and their associated entities and agencies.

13. The National Parliament must insist on all statutory reporting requirements being met by all Provincial and Local-level Governments. This is a matter of real and immediate importance.

14. Provincial Treasury staff must be properly trained and suitably experienced before they are appointed.

15. Failure to make and submit statutory accounts or reports by any member of the Provincial Treasury staff, should result in removal and replacement by trained and competent officers.

16. Delays by Provincial and Local-level Governments in answering Management Letters from the Office of the Auditor General must be dealt with. There should be a time limit for response.

17. Lack of asset records and subsidiary documents in Business
, Arm s of Provincial Governments must be addressed.

18. The Minister for Finance must prescribe the form of financial statements for Hospital Boards. This matter has continued for years despite efforts of the Auditor General and undertakings by the Department of Finance. This is a simple issue, yet the Department of Finance seems unable to address it. Until it is addressed, audits of Hospital Boards can only be qualified.

19. The correct number and status of Provincial Government Business Arms must be established.

20. Provincial Governments must maintain proper records of Business Arms and investments.

21. The payment or audit fees by Provincial and Local- level Governments, Business Arms and Hospital Boards should be made a legally enforceable obligation. Those fees should be made recoverable from monies paid to sub-national Governments, their entities or agencies and Hospital Boards.

22. Special Purpose Funds and Trust Accounts must be investigated and their status made known.

23. Provincial Trust Accounts and accounting must be brought under control and managed within the PGAS system. If trust

accounts are operated in PGAS, the closing balances per cash book can be obtained with ease and reflected in the Public Account of Papua New Guinea.

24. Standard Provincial Trust Instruments, which include the requirement for the account to be maintained in PGAS, should be used for all trust accounts without exception. And these approved trust instruments should not become effective until they are registered and operated under PGAS.

25. All cheques drawn on Provincial Trust Accounts should be generated by PGAS and all signatories should be officers of impeccable character and suitable training and experience and be should be annually reminded of their fiduciary duty not to sign blank cheques. We also recommend that the signing of blank trust cheques should be an offence under the PF(M)A.

26. We have made a number of findings and recommendations concerning Trust Account management in our Report on Government Trust Accounts tabled in the National Parliament in 2010. We reiterate our recommendations.

27. Local-level Governments must be brought under control and be forced to make and submit financial statements and statutory reports.

28. Dispensing of audits should only occur in very special circumstances and never for want of documentation or resources to perform the audit.

29. Corporate Governance at Provincial and Local-level government level is virtually non-existent. A significant effort to create, implement and maintain control systems should be made by Government. Until this is done there can be no accountability for public monies, property or stores.

30. Corporate Plans must be developed and implemented in all Provincial and Local-level Governments.

31. There is a serious lack of coordination and communication between Treasury Offices and Provincial and Local-level Government on financial matters.

32. Internal Audit Committees must be established in Provincial and Local-level Governments and staffed by competent officers who understand the process of internal auditing and of its relationship with the Chief Executive and external auditors.

33. Internal audit should be seen as internal management control designed to examine and evaluate the efficiency and effectiveness of other management controls as a basis of improved managerial performance. Internal audit cannot play this role if agencies continue to appoint internal auditors that are ineffective in other positions.

34. The Department of Finance should specify the minimum qualification and experience required for appointment as an internal auditor and prescribe that the focus of internal auditors should be on the review of systems and controls, and the monitoring of progress in implementing recommendations from internal and external audit reports.

35. There is no adequate risk assessment, planning, manpower or funding to undertake internal audits in Provincial Governments and the Departments of Treasury, Finance and Inter? Governmental Relations must address this as a matter of urgency.

36. Audit Charters and/Audit Plans must be established and implemented by all Provincial and Local-level Governments.

37. Provincial Internal Auditors must be properly and adequately funded and resourced.

38. Budget control at sub-national level is v ry poor and must be addressed as a matter of urgency. The Department of Finance should focus on trying to improve Provincial internal budgeting in 2011-12 and emphasising that good internal budgeting, linked to the· agencies' corporate and operational plans, will help deliver services for which the Provinces and Local-level Governments are responsible.

39. Revenue registers must be created, implemented and maintained to properly and currently record revenue and receivables.

40. Revenue forecasting must be considerably improved.

41. Revenue collection, review and recording in Hospital Boards requires immediate improvement.

42. Banking of revenue requires reform and should be performed on a daily basis.

43. There is a significant lack of control over procurement and payment at sub-national level. This requires redress as a matter of urgency.

44. Human Resource management at sub-national level requires considerable improvement.

45. Cash management requires reform and improvement. in particular, bank reconciliations are not made in a timely manner (or at all) and the Department of Finance must address this issue.

46. Stocktakes and valuations have not been performed by Provincial Governments and this must change.

47. Trust Accounts managed by Provincial Governments have no records and are not reconciled.

Trust Instruments cannot be found. Overdrawn Trust Accounts exist - and this is a legal impossibility. These matters require urgent attention and reform ,

48. Provincial and District Treasurers should have recognized qualification in accountancy. This will give those officers an understanding of accounting practices and theory and reporting requirements. Moreover, this training gives an understanding of ethical considerations and an objective understanding of the importance of their position to nation building and service delivery and an ability to properly supervise subordinates.

49. The Department of Finance should consider issuing a guidance document to assist Provincial Governments and Treasuries to

develop Provincial specific instructionsr which complement Finance Instructions and the General Orders, on any matter that promotes the efficient, effective and ethical use of public money, public property and other Government resources for which the Province is responsible.

50. These instructions would provide a useful mechanism for agency heads to promulgate their policies and rules within their agency, which give application to the principles and requirements of the PF(M) Act, the Organic Law on Provincial and Local-level Governments and associat ed instructions. These specific instructions will generally be the primary source of information and advice for officials on the internal financial manage.ment practices of a Province.

District Services Improvement Program.

1. Management of the DSIP has suffered from a lack of clear administrative framework and a failure by National Government managing Departments to fulfil their roles. This framewor k must be implemented without delay.

2. The Department of Finance must clarify the type of assets that can be purchased under DSIP Guidelines.

3. Asset registers must be maintained by Districts for all assets purchased under DSIP.

4. Delivery of monthly management reports by Districts must be enforced.

5. A working DSIP internal audit program is essential and should be instigated immediately.

6. There is no or no adequate internal controls to investigate mismanagement of projects, misappropriation, waste and fraud.

Public Bodies, Statutory Corporations, Commercial Entities and Corporations having Government Shareholding.

L The process of establishing or amending the form or structure of existing statutory authorities and public bodies must be formalized and tightly circumscribed.

2. The following are draft suggestions for that process, promulgated by the Department of Finance, and we endorse them:

- "The Head of the Department of Finance may issue guidelines which statutory authorities must comply with m order to be validly established;

• Following the passage of these amendments by Parliament, any existing statutory authority that seeks to restructure itself through legislative amendments must also comply with Guidelines established under paragraph (a);

• A proposal for the establishment or restructure of a new statutory body shall only be approved by the National Executive Council on the recommendation of the Minister for Finance after he or she has received a Report from the Central Agencies Consultative Committee confirming that the statutory authority is in compliance with any guidelines established under paragraph (a);"

3. Section 63 of the Public Finances (Management) Act 1995 should be rigorously applied in 2011. The management of any Public Body or subsidiary corporation to which the section applies but which fails to comply, should be replaced with officers who are capable of doing so.

4. The following are suggested reforms promulgated by the Department of Finance and we support the draft changes:

, • Statutory Corporations that have not complied with the accounting requirements of law should be either wound up or their Board and management replaced.

• Commercial arms of Government - particularly Provincial Government that have not kept or submitted lawful accounts should be wound up.

, Commercial arms of Government should be the subject of a demand for all outstanding accounts,

reports and statements within a set time limit. Any entity that does not comply should be wound up.

·• Pursuant to Section 50 of the Public Finances (Management) Act 1995 , the Department of Finance should make demand of all Public Bodies for their submission of Performance and Management plans within a strict time limit. Any Public Body not complying in proper form (or at all) should be called to account for that failure and the management thereof should be replaced.

CD We recommend the following reforms to the Section SO of the PF(M)A that deal with Performance and Management plans:

• Insert a new sub-section that states:

'State corporations to which this Part applies and statutory authorities shall submit to the Departmental Head of the Department responsible for financial management, progress reports against their performance and management plans.'
Retrospective reports, not prospective-.

• Amend sub-section 50(3) to read:

' A performance and management plan under Subsection (2) or a progress report under Subsection

(...) shall be submitted at such

intervals and in such form and shall contain such information as is specified by the Departmental Head of the Department responsible for financial management.'
• In sub-section 50(2), replace 'The chief executive of each public body shall, at such intervals as are required by the Departmental Head of the Department responsible for financial management' with 'Each State corporation to which this Part applies and each statutory authority shall..... ...... "
• Any public body that has not submitted estimates of receipts and expenditure and/or its proposed works programme for the financial year should be called to account by the Department of Finance and deprived of public funding until it does comply.

• To effect this suggestion we endorse recommended amendments to Section 51 PF(M)A as follows·:

51(1) A State corporation to which this Part applies and each statutory authority shall submit to the Departmental Head of the Department responsible for financial management a report C()ntaining financial statements for the next financial year, together with:
a) estimates of receipts and expenditure for the next financial year; and

b) its proposed capital works program (if any) for the next financial year

51 (2) Insert a new sub.-section that states: 'The financial statements, estimates of receipts and expenditure and proposed capital works program required in sub.-section 51(1) shall be submitted by such date and in such form as is set out in a financial instruction issued by the Departmental Head of the

Department management'

responsible for financial

5. The state of commercial arms of Government and many statutory corporations is unknown as is the state of "investment" by Provincial Governments in their commercial arms. The Department of Finance must, in 2011, deploy an investigatory team to establish the precise state of each such entity.

6. Tendering and procurement practices of all public bodies should be the subject of oversight and control to ensure that the terms of policy, Ministerial direction (Section 60 PF(M)A) and law are complied with.

7. We accept and endorse the following proposed amendments to Sections 59 and 61 of the PF(M) A:

• Amend the title to read 'Public tendering for works and services'

• In sub-section 59(1), delete 'and contracts taken' and replace 'a public body to which this Act applies' with 'a State corporation to which this Part applies or a statutory authority'
• Insert a new sub-section that reads: 'Tenders under Subsection (1) may be referred to the Central Supply and Tenders Board or they may be undertaken by a supplies and tenders board established by the statutory authority or State corporation.'
• Insert a new sub-section that reads: 'A supplies and tenders board established by the statutory authority or State corporation shall be subject to such quality assurance requirements as are determined in a financial instruction issued by the Departmental Head of the Department responsible for financial management.'
• In sub-section 59(2) (b), replace 'public body' with 'the Central Supplies and Tenders Board or a supplies and tenders board established by the statutory authority or State corporation".
Section 61:

• Delete Subsection 61 (3) and referencesto it in Subsection 61 (2).
• Amend Subsection 61(2) to read HA State corporation tQ which this Part applies or a

31.1

statutory authority shall not, except with the approval of the Minister, enter into a contract involving the payment or receipt of an amount, or of property to a value, (or both) exceeding such threshold as determined for that State corporation or statutory authority by the Departmental Head of the Department responsible for financial management in a financial instruction".
8·, Section 62 Public Finances (Management) Act 1995 should be strictly enforced. The management of any Public Body that is required, but fails to, comply with that Section should be replaced.

9. The terms of the Companies Act must be rigorously enforced in 2011 - particularly those sections dealing with accounting, auditing and directors responsibilities and liabilities.

10. The powers of the Minister and Secretary responsible for financial matters and prescribed by section 64 of the Public Finances (Management) Act 1995 , should be used to their full effect in 2011 against any public body which defaults in any of its statutory obligations.

11. Part VIII of the Public Finances (Management) Act 1995 requires reform. It is a difficult section to interpret and the precise ambit of the term "public body" is difficult to understand. For instance, it is difficult to understand why

some public bodies should be exempt from the requirements of the PF(M) A - see Section 48.

12. Part VIII of the Public Finances (Management) Act 1995 should be re-enacted with at least the following changes intended to bring greater control over and accountability to public bodies and commercial arms of Government:
• Introduce guidelines for the establishment or restructure of Statutory Authorities;

• Introduced stronger enforcement provisions;

• Subsidiary corporations (Section 49): clarify the definition and amend so that all provisions of Part VIII apply to all subsidiary corporations of statutory authorit ies;

• Performance and Management Plans (Section 50) – not only should the form and content of the reports be clarified, progress reports and oversight reports must be submitted;

• Particulars of proposed expenditure (Section 51) – the precise nature and content of financial statements required should be made clear;

• Moneys payable to public bodies (Section 53) – all unspent money must be returned to consolidated revenue and any post dated cheques drawn on those

unspent funds after the 31st December in the prior financial year should be deemed a criminal fraud;

• Investment (Section 57) – this section is not easy to understand and needs updating to take account of current investment options and strategies. In the absence of information on the state of commercial arms of Government and investments by Governments – particularly Provincial Governments, investment rules must be tightened;

• Public tendering for works and services (Section 59)
– the requirements for when and what public tenders are required and which bodies are authorised to conduct such tenders needs to be clarified;

• Approval of contracts (Section 61) – the threshold requiring Ministerial approval needs to be updated and they should be made subject to Financial Instructions;

• Reports and financial statements should not only be mandatory but enforced by cessation of funding, significant penalties for non compliance and contracts of employment of CEO's and CFO's should be conditional on full and timely compliance.

13. We recommend that:

• All sections of Part VIII PF(M)A should apply to all statutory authorities notwithstanding any provision in any other Act.

• All sections of Part VIII PF(MJA may apply to a State corporation if:

a. the Memorandum and Articles of Association of that State corporation so provide; or

b. an Act other than this the PF(MJA provides that Part VIII shall apply to that State corporation.

• No sections of Part VIII PF(MJA will app ly to any public bodies other than statutory authorities or State corporations.

• No provision of any statute, other than the PF(M)A, shall revoke, remove or vary the obligation of a statutory authority to observe the governance framework that is provided under Part VIII of the PFMA.

• The Head of the Department of Finance may, through a Financial Instruction, establish:
a. a list of statutory authorities; and/or

b. a list of State corporations.

and must, by law, keep and maintain a register of each authority and corporation and their precise financial status.

14. The core of reform is enforceability. We recommend that Part VIII requires significant deterrent and easily availed processes to enable quick and effective sanction for default.

15. The following has been recommended by the Department of Finance and we endorse the proposed changes:

• "Where a statutory authority fails to comply with the provisions of Part VIII of the PFMA the Minister for Finance shall at any time, following non-compliance, issue the head and a member or members of the controlling authority of the statutory authority a Letter of Non-Compliance in accordance with this Part.

• A Letter of Non Compliance shall:

(a) state that a statutory authority has not complied with Part VIII of thePFMA, and identify the provisions with which the non? compliance has occurred; and

(b) require a statutory authority to comply with Part VIII within 60 days;

(c) state that if, after 60 days from the date of the Letter of Non-Compliance, a statutory authority remains non-compliant, the

Minister for Finance may exercise the power to suspend or terminate the head or a member or members of the controlling authority of the statutory authority.

• Where a statutory authority fails to comply with a Letter of Non-Compliance the Minister for Finance may at any time by written notice suspend the head or member or members of the controlling authority for a period not exceeding three months, with or without remuneration. The period of suspension shall not be extended.
• Where, following the termination of a period of suspension a statutory authority remains in breach of Part VIII, the Minister for Finance may, at any time, by written notice, advise the head or a member or members of the controlling auth.or i t y of a statutory authority that heintends to terminate his or her appointment on the grounds of non compliance with Part VIII.
• Within 14 days of receipt of a notice under paragraph 5 (d) hereof the head or a member may reply in writing to the Minister, who shall consider the reply, and where appropriate terminate the appointment.
• Where the head or a member referred to in paragraph 5 (d) does not reply in accordance

with paragraph 5 (e) his or her appointment shall be terminated without further notice."
16. The definition of "subsidiary corporation' in Section 49 Public Finances (Management) Act 1995 is complicated. It needs to be reformed and simplified. At least the following would render the definition easier to follow:
'• In Subsection 49 (1), replace 'a subsidiary of a public body' with 'a subsidiary of a State corporation to which this Part applies or a subsidiary of a statutory authority".

• Replace all subsequent references to 'public body' with 'statutory authority or State corporation'

• Replace the first reference to 'corporation' with a 'company incorporated under the Companies Act 1997' and replace all subsequent references of 'corporation' with 'company'
• Insert a sub-section that states: 'A statutory authority or State corporation may only' establish a subsidiary company once it has received approval to do so from the Minister. '
These proposals have been suggested by the Department of Finance and we support them,

17. Entities that comprise the Part IV Report of the Auditor General must keep and submit financial statements in accordance with the International Financial Reporting

Standards and the Department of Finance must be made to enforce this requirement.

18. The Salaries and Conditions Monitoring Committee Act must be complied with and cannot be derogated from .

19. Asset registers must be compiled by Pub Uc Bodies. The Department of Finance must start this process immediately ,... it is clear that individual agencies are incapable or unwilling to do so.

20. Stock takes and valuations of all assets must be performed annually (at least) and the Department of Finance must demand this process occur immediately.

21. All allowances must be acquitted fully, recovery action begun and the entire chaotic system of advances must be brought under control.

22. Internal Revenue Commission regulations must be brought under control and compliance enforced.

23. Accounting, administrative and procedural manuals must be promulgated and enforced.

24. Public servants who serve on statutory Boards should not be paid allowances.

25. Internal audit functions must be made workable and we believe should be legislated for.

26. Budget controls must be imposed. The Department of Finance must attend to this duty immediately and, we believe, the National Parliament must legislate to enforce these controls.

27. Public Bodies and corporations 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 1.995.

27.2 In the interest of our future, our viability and our people's welfare, this situation must change and change immediately.

28. REFERRALS.

28.1 There is little point in referring Public Servants for investigat ion or prosecution for events that occurred in 2007. 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.

SCHIED U L E ONE.

LI ST OF WI TNIES S ES.
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Mr George Sulliman - Auditor General.

Mr. Manasupe Zurenoc - Acting Chief Secretary . Mr Gabriel Yer - Secretary for Finance.

SCHEDIJJJL IE TWO.

Report
of the
AUDITOR GENERAL - 2007

On the Public Account of
Papua New Guinea

Part I
• Public Accounts of Papua New Guinea

REPORT OF THE AUDITOR-GENERAL ON THE PUBLIC ACCOUNTS OF PAPUA NEW GUINEA
FOR YEAR 2007

SUBJECT

PAGE

Foreword

This report, prepared under Section 214 of the Constitution of Papua New Guinea is Part I of my Annual Report to Parliament. Part I is divided into Sections. More details of the division into four Parts of my Annual Report and the functions of the Auditor-General are given in the Introduction to Section "A" of the Part I Report.

Section "A" provides the Audit Opinion on the Public Accounts which represent the financial statements of the Government of Papua New Guinea.

Section " B" contains my observations on the Government's financial statements. A broad range of internal control issues were raised as part of the final audit phase. These matters were consistent with issues reported in previous years. In general, the results again demonstrate that internal controls require significant improvements and regular monitoring.

Section "C" presents appendices for which I had made reference to in my audit report.

Introauction aruf,, .udit Opinion

1.0 INTRODUCTION

Section 214 of the Constitution of the Independent State of Papua New Guinea requires the Auditor-General to inspect and audit, and to report at least once in every fiscal year (as provided by an Act of the Parliament) to the Parliament on the Public Accounts of Papua New Guinea and on the control of and on transactions with or concerning the public moneys and property of Papua New Guinea, and such other functions as are prescribed by or under a Constitutional Law. These functions have been amplified by the Audit Act 1989.

Section 7, sub-section 2A, of the Audit Act 1989 requires the Auditor-General's report to specify:

a) whether the financial statements, to which the report relates, are based on proper accounts and records;
b) whether the financial statements, to which the report relates, are in agreement with the accounts and records and whether they show fairly the financial operatio ns for the period for which they cover and the state of affairs as at the end of that period;
c) whether the receipt and payment and investment of moneys and the acquisition and dis pos al of assets during the year have been in accordance with the Public Finances (Management) Act 1995 (PF(M) Act); and

d) such other matters arising out of the financial statements, to which the report relate s as he considers should be reported.

2.0 PARTS OF THE ANNUAL REPORT

In accordance with the above requirements, audits are carried out and the finding sare reported to the National Parliament in four Parts:

Part I –This Part of my Annual Report for 2007 is presented in three sections:

- Section "A" presents the Public Account, which the Minister for Treasury and Fina nce has, in terms of Section 3 of the PF(M) Act, caused to be prepared and provided to me for audit. My audit opinion on these financial statements precedes them in Section "A" . The audited financial statements and my audit opinion were provided to the Minister for Treasury and Finance. The financial statements appearing after the audit opinion in Section "A" of this report includes first five pages and last ten pages of Statement "L". The reason for this is that Statement "L" contains disaggregated details of the total of K8,293 million of expenditure appearing in Statement "B" and is too large for integrat ion into this Report. The details together with myaudit opinion report on the Public Account would appear in the Department of Finance publication.

- Section "B" of this report contains significant matters arising as a result of my audit on each of the statements "A" to "J" and "L" of the Public Account of Papua New Guinea . My opinion in Section "A" and audit findings in Section " B" should be read m conjunction with the respective financial statements of the Public Account.

- Section "C" provides appendices for additional reference.

GOVERNMENT OF PAPUA NEW GUINEA

STATEMENT A
PUBLIC ACCOUNTS

STATEMENT OF PUBLIC ACCOUNT BALANCES AS AT 31ST DECEMBER 2007

	Notes	2007 (Note 3) Kina	2006 Kina
Consolidated Revenue Fund	6	(82,680,647}	(247,225,778)
Trust Fund (Statement C)	14	2,600,.09 9 , 1 4 3	1,724, 561,210
Public Account Total Funds		2,5:1,7,418,496	1,477,335,432
BANK BALANCES			
Bank of Papua New Guinea	17.1	4 92,5 3 2,9 4 6	393,832,087
Bank of South Pacific	17. 2	1,616,668,243	983,8809, 85
ANZ Bank	173	213,559,419	

87,111,908
Westpac Bank 17.4
18 1, 188,7 27

833,138
Investment Trusts Bank South Pacific - BSP
12,967,640

11,269,719

2,516,916,975

1,476,927,837
FINANCE OPERATING ACCOUNTS 8
Advances

220,025

199,269
Cash In Transit
281,496

208,326

501,521

407,595

2,517l418l4 6 1,477,335,432

This statement should be read in conjunction with the att ached notes.

Secretary for Finance First Assistant Secretary Accounting Fra meworks and Standards Division

NOTES TO THF PUBLIC ACCOUNTS

NOTE 1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICY

1.1 Cash Basis of Accounting

The accounting policies and practices followed in the preparat ion of the 2007 Publi c Accounts are based on requirements stipulated in the Public Finances {Management) Act {1995) and associated Finance Instructions.

The 2007 Public Accounts are prepared on a cash Basis. Receipts and paymentsare only recognised when cash is respectively received or disbursed.

1.2 Recognition of Receipts and Payments

Payments made by cheque are recognised when the cheque is raised in the accounting system.

Receipts are recognised at the time the money is recorded in the accounting system.

Amounts due to Government from third parties that remain uncollected at year end are not recognised in the Public Accounts but are disclosed in Note 9 " Payables and Receivables".

Assets, including investments, acquired during the year are charged to expenditure in the year payment is made. No assets other than cash are shown in the Public Accounts. The Government's investments, capital contribution and option right in certain entities are disclosed in Statement' F'.

Liabilities owed by National Government are not recognised in the Public Accounts. Some liabilities are disclosed in Note 9, "Payables and Receivables".

Contributions-in-kind provided to the National Government PNG by foreign governments and aid organisations are recognised as grant revenue in the Public Accounts at the point the contribution-in-kind is received by the Natro na! Government. Costs associated with contribution-in-kind, incurred by aid organisation s, are recognised as expenditures when the contribution is received.

Data on non cash contributions made by commercial entities under concessional tax arrangements or agreements with the National Government rs not available and these contributions are not recognised in the Public Accounts.

1.3 3 Valuation of items reported in the accounts.

1.3.1 Cash at Bank (Statements A1 (D and£)

Cash at bank values reported are based on the balance of the cashb ook unless otherwise noted. In some instances cash at bank figures reported in these statements is the bank balances reported on the relevant bank statement. Note 17 "Bank Balances'; provides information on which accounts are valued using bank balances.

1.3.2 Non Cash Grants (Statements .l;, I and BJ

Non cash grants are valued on the basis of written confirmations provided by the aid provider. Grants are brought to account at the Kina equivalent of the costs incurred by the donor in providing the non cash grant.

1.3.3 Investments (Statement F)

Investment valuations are determined using the following methods, in priority order:

• Method A; (1st priority) Listed public companies are valued on the basis of share prices as at the 31st December 2007.

• Method B: (2nd priority) Independent valuations (no more than 3 years old) performed by qualified valuers.

• Method C: (3rd priority) Net asset value published in audited financial statements.

• Method D: (4th priority) Net asset value published in unaudited financial statements.

Method E: (5th priority) Where no current year valuation is available previous year valuations are used.

The valuation method used for each investment is indicated on Stateme nt F.

Comparative investment values reported for the 2006 year are based on the latest available information. Where this information shows that values reported in the 2006 accounts were incorrect the 2006 values have been corrected in the 2007 accounts.

1.3.4 Foreign Currency Loans (Statements B/ G and I)

Loan balances and loan drawdowns and repayments that are denominated in a foreign currency are converted to a Kina equivalent based on the mid rate exchange rate for the currency in question, Exchange rates are supplied by the Bank of PNG.

1.4 4 Rounding of amounts presented in the Statemen ts.

Amounts presented in these statements are expressed to the nearest Kina unless otherwise stated.

Because amounts are presented to the nearest Kina some totals may appear to contain small errors of up to several Kina. These are rounding errors that arise because of the omission of Teoa balances.

NOTE 2 CHANGES IN ACCOUNnNG POLICIES ANO PRACTICES
There has been twenty four trust instruments revoked in prior years however the associated trust funds are still in operation and in some cases have active bank accounts. Of these: four funds have since been transferred in 2008 to new trust funds, two funds are in the process of being transferred to new trust funds, five funds are having trust instruments reinstated and thirteen funds are under review which may result in trust instruments being reinstated. In 2006, the balances (K 24.336m) for nine of these trust funds were transferred to Consolidated Revenue Fund

whilst the balances (K15.243m) for the remaining trust funds were not recognised.

In 2007, the 2006 balances for twenty four of these trust funds have been reinstated for completeness whilst the actions identified above are being undertaken . For comparative purposes, the 2006 balances for Consolidated Revenue Fund1 Trust Fund and Bank have been restated as per Note 3 "Restatement of Balances'

NOTE3 RESTATEMENT OF BALANCES (STATEMENTSA/ Cand D)

3.1 Opening balances

The accounting changes outlined in Note 2."Changes in Accounting Policies and Practices" have affected the 1st January 2007 opening balances shown on Statement ' A' of the Consolidated Revenue Fund, the Trust Fund and the Bank.

The opening balances of the Consolidated Revenue Fund and the Bank have also been adjusted to correct an error of Kl2.869m in 2006 following the transition to the cash basis of accounting.

The restated balances are as follows:

Consolidated Revenue Fund
before restatement
(23 5,758,8 49)

after restatement
(2471 225,778)
Trust Fund
before restatement
1,68419 81,084

after restatement
1,724,561, 210
Bank
before restatement
1, 448,814 ,640

after restatement
11 476,927,837

NOTE4 BUDGET ESTIMATES OF REVENUE ANO EXPENDITURE (STATEMENTS J and L)

Original revenue and expenditure estimates figures are taken from the 2007 Budget Appropriation Acts. Additional estimates figures on Statement B and J are taken from supplementary budget acts. Section 3/4 transfers on Statement B reflect reallocation of appropriation authorised by the Secretary of Treasury. Revised revenue and expenditure estimates on Statement B and J reflect the estimates contained in the original appropriation Acts plus the Supplementary Appropriation Acts plus or minus the effects of any transfers authorised by the Secretary of Treasury.

Original revenue and expenditure budget figures on Statement L are taken from the 2007 Appropriation Acts and the Supplementary App ropriation Acts. Section 3/ 4 transfers on Statement L reflect reallocation of the approp riations authorised by the Secretary of Treasury. Revised expenditure estimates on Statement L reflect estimates contained in the original appropriation Acts plus the Supplementary Appropriation Acts plus or minus the effects of ant transfers auth or ised by the Secretary of Treasury.

' NOT E S 2007 SUPPLEMENTARY APPRORIATIONS (STATEMENT BJ

5.1 Reconciliation Of supplementary Appropri ations

During the 2007 year Parliament passed Supplementa ry Appropriation Acts appropriating an additional K2.587m; as follows:

Supplementa,y Appropriation (Priority Expenditure) Act Additional Supplementa,y Appropriation Act Supplementary Appropriation (Gas Equity Trust) Act
Total

K450m K1.637m K500m K2.5 87 m

The reconciliation of the Appropriation Acts to the Revised Appropriation figure s shown on the statements is as follows.

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s.2 Transfers betw een serv ices

In his audit opinions for the 2003, 2004, 2005 and 2006 Public Accounts the Auditor General expressed the view that the transfer of Recurrent Budget App ropriations to the Parliament, Judiciary and Development projects was in breach of the provisions of Sections 24 and 25 of the Public Finances (Management) Act The Departme nt of Treasury disagrees with this position and legal advice is being obtained from the State Solicitor to resolve the issue.

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10.2 General Business Trust - New investments and dividend receipts and payments.

There were no new assets vested in the General Business Trust, held by the Independent Public Business Corporation (IPBC) as trustee, during 2007.

Dividends totalling t<:66,244,613 were received by the General Business Trust in 2007 (2006: K82,915,716) as follows:

	2007	2006
Oil Search Limited	46,960,709	54,027, 390
Bank of South Pacific	17,137,318	14,995, 154
Motor Vehicle Insurance Ltd	Nil	12,000, 000
Eda Ranu	1,100,000	1,000,000
PNG Forest Products	600,000	0
Ramu Sugar Limited	446,586	893,172
Total	66,244,613	82,915,716

The 2006 Public accounts reported dividends received by the General Business Trust as totalling K106,746,525. This amount varied as a result of the actual di vidend received from Oil Search being K54,027,390, rather than the reported K77,858,199.

No divjdend has been received from IPBC from revenues paid to the General Business Trust for 2007. A dividend of K25,000,000 was paid for 2006.

10.3 Oil Search Limited

During the 2007 year there was uncertainty about which of the Independent Pu blic Business Corporation or the Mineral Resources Development Corporation had responsibility for the Government's equity in Oilsearch Ltd, For the purposes of these accounts the value of Oilsearch Ltd. shares are included in the I PBC values.

10.4 Ok Tedi Mining Limited

Shares in Ok Tedi Mining Ltd (OTML) were vested in the IPBC, however the vesting notice is in conflict with the agreement between OTML and the State of PNG that states that the shares are to be held by the State of PNG. In these accounts the value of Ok Tedi shares is reflected against direct holdings by the State of PNG, not under the investments vested with the IPBC.

10,5 Investments

The investments presented in Statement 'F' reflect those assets held by the State in commercial entities or independent public bodies. This does not include equity or other assets held by the State in other public bodies, such as statutory autho rities.

NOTE 11 PUBUCDEBT

Section 35 of the Public Finances (Management) Act provides authority for the Government to borrow funds. This authority is subject to limits and conditions.

Borrowing and Public Debt are detailed on Statement 'G'.

11.1 Balance of public debt

The balance of Government Debt outstanding at 31 December 2007 was K6,371,512m as follows:

Opening balance of debt at 1 January 2007
K' OOO
K'OOO
6,836,150
Prior Year Adjustment

5,827
Adjusted Opening Balance of Debt 1 January 2007 Add: Additional borrowings

1, 504,061
6,841,977
Less: Repayments of Principal
(1,774,705)

Less: Adjustments for exchange rate movements
(199,820)

Closing balance of debt at 31 December 2007

6,371,512
Net reduction in public debt during 2007

470,465.

The prior year adjustment relates to an error in the 2006 reported value of drawings and borrowings in Statement 'G'. This has been corrected and State ment 'G' no w reports the correct closing balance for 2006.

11.2 Debt related inte rest payments

Interest repayments made in the 2007 year totalled K358,650m.

NOTE 12 PUBUC LENDING

Section 38 of the Public Finances (Management) Act provides authority for the Government to loan funds to third parties and to impose interest and fees for loans made.

Lending by National Government to other parties are detailed on Statement 'H'.

Recovery of outstanding amounts owed to the Government under the National Jnvestors Scheme and Others is considered unlikely. However, loans will continue to be reported until such time as they are written off by obtaining National Exexutive Council approval.

IfANK OF SOUTH PACIFIC ACCOUNTS

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NOTES TO THE PUBLIC ACCOliNTS

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NOTES TO THE PUBLIC ACCOUNTS

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DECEMSER 2007

STATEMENTS

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OFFICE OF GOVERNOR-GENERAL 2,315 0 981 3, 296 3 ,236 3,847
DEPARTMEITT Of PRIME MINISTER & NEC 48,9'15 0 11,571 60,516 60 ,4 38 62,506
NATIONAL STATISTICAL OFFICE 3 ,439 0 784 4 ,2 23 4 , 22 7 J 253
OFFICE OFBOUGAINVILEL AFFAIRS 1,233 0 .31 1 ,264 1, 29 6 2,10 7
DEPARTMENTOF FINANCE I 17,388 0 2,102 19,490 21, 562 17,255
DEPARTMENT OF TREASURY 9,193 0 (42B); B,765 8 , 69 2 8,399
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DEPARTMENT OF DEFENCE 91,239 0 22,093 113,3.31 1 1 3 , 920 93,9 8 9
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DEPARTMENT OF COMMUNITY D'f:VELOPMENT 8,159 0 1,157 9,316 8, 944
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DEPARTMENT OF ENVIRONMENT AND CONSERVATI 7,969 0 2,248 10,217 10,311
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DEPARTMENT OF AGRICULTURE AND LIVESTOCK 11,966 0 1,52<1 13 , '189 16 , 0 5 4
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DEPARTMENT ')F LANDS AND PHYSICAL PLANNIN 11,561 0 5,36b 16 ,927 16, 99 1
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QFF!CE OFRURAL DEVELOPMENT 27,250 D 8 1,2 00 1 08, 450 10 8 , 45053 ,8 90
TOTAL 1,265,5800 148 1,265,727988,871 1,422,103
. STATUTORY INSTmmON GRANTS 2.B,512 0 0 213,512 202,) 38 223,786
PROVINCIAL (:,0VEP.NMENTS 157 , 493 WOOD '?,ClDO 18 7, 393 150 , 0'95lfi l ,389
TREASURY AND FINANCE • MI5CEL1ANEOU5 0 0 2,80 0 l, 8o 0 2,800 1, 5 000
TOTAL TRANSFERS, ONLENDING & MISC.EXP 371,005 20,000 12,700 403,705 354,933
420,174
TOTAL DEVELOPMENT PAYMENTS 1, 636 584 :,l0 000 1 2. 84 8 1 ,6 69 432 1 . 343 ,8
04 1 ,842 2 78

7,45'1 29 2

(1 4 6 07 1)

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GOVERNMENT OF PAPUA NEW GUINEA PUBLIC ACCOUNTS
TRUST FUND - PARTICULARS OF INVESTMENTS AS AT 31 DECEMBER 2007
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STATEMENT E

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I I n vestment r!) criptfon

Closing Balalfc;:f! ' I nt er est Rate

. Term o,f'M atu d ty ,

MOTOR CAR LICENSEO DEALERS TRUST

... - ·- . $ 0/ct , -

- 8SP Term Deposit 1001310793 208,898 0.50% 180 days
TOTAL 208,89 8
INSURANCE DEPOSIT TRUST '
- ANZ Term Deposits 1,500,000varies var ies

- BPNG Tern, Deposits 2,249,00'0

varies varies

- BSP Term Deposit s 1,245,848 , varies varies
- FtnCorp Term Deposit 50,742 varies varies
• Kina Finance Term Deposit Si ,573' varies varies
TOTAL 5,0971162
BOOKMAKERS SECURI'N DEPOSIT TRUST
- BSP SavingsAccount 1000565580 286,259 varies on demand
- BSP Term Deposit 1001317414 (formerly-1000982592) 53, 584 0.75% 365 days
'TOTAL 339,844
DISTRICT COURT TRUST
- BSP (PNGBC) - Various Saving Accounts 3,493,767varies on demand
TOTAL 3,49 3,767
REGISTRAR OF SUPREME COURT TRUST ACCOUNT

:- BSP Term Deposit1000591441	8,696	0.35%	91 days
- BSP Term Deposit 1000591445	9,489	0.35%	91 days
- BSP Term Deposit 1000591447	9,489	0.35%	91 days
- BSP T erm Deposit 1000591449	11,752	0.50%	91 days
- BSP Term Deposit 1000949585	116,987	1.00%	182 days
- B5P Term Deposit 1000949587	356,342	0.50%	182 days
- BSP Term Deposti 1001173473	509,333	1.50%	182 days
- BSP Term Deposit 1001173506	123,276	1.50%	182 days
- BSP Term Deposit 1001173849	84, 338	0.50%	367 days
- BSP Term Deposit 10012.18525	281 ,232	0.50%	182 days
- BSP Savings Account 1000574472	2,473	varies	on demand

· BSP Savings Accounts (Various) 2,314,563varies on demand
TOTAL 3,827,969

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,.9,67C. fM,OI

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GOVERNMENT OF PAPUA NEW GUINEA PUBLIC ACCOUNTS
INVESTMENTS, CAPITAL CONTRIBUTIONS AND OPTION RIGHTS AS AT 31 DECEMBER 2007

STATEMENT F

Statement of direct investments, capital contribution and equity opiion rights as at 31st December 2007

I
Statement of initial capital contribution and equity for statutory authorities as at December 2007

Particulars
% owned by
GoPNG
Value as at 31 Dec
2007
Basis of 2007 valuation

Value at 31 Dec
2006

Basis of 2006 valuation

Bank of Papua New Guinea' IndependentPublic Business Corp.* (Note 10,2,10,3, lQ.4 and .following table)

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100

6,264,961
5,071,675,917

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5,219,067
3,711,985,165
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D
Total– –
s·,o77,940,s1s

3,71 7,204,232'

Total (iQYernmeot Investments
5,.993,787,237

4,1231 534;23Z

Valuation of BPNG adjustea For 2006 to reflect value rerorded In 31 December 2607 audited report
*Includes assets held i11 the General Busmess Trust (GBT) (following table K4,962,257,S51) and net assets of IPBC (1<1 09,418,D66)

statement of investments, vested in the General Business Trust managed by JPBC a·s at 31st Dec

2007

Particulars % owned by Value at 31 DecBasis of 2006 Value at 31 D.ec Basts of 2006 valuation
GoPNG 2007valuation 2006*
Alr Nujgini 100 21'6,950,000' D 176,950,0(f() D
Aquarius No 21100 943,218 E 943,218 E
Bank of South Pacific2.4.S8 777,605,822 A. 429,504,083 4
BSP (Ex. MVIL) 100 73 , D 0 D
Cape Rodney Estates Pty Ltd 100 174,000 9 174,000 E
200,00D shares
Eda Ranu lOO 29,698,267 D 29,698,267 E '

Garden Hills PP Ltd 100

- E ! 98, 500 D

Gogol Reforesat ion Co Pty Ud 49 54,357) E (54,_357} E
98,001 shares
Gevernment.Printer 100 1 E 1 E
Government Stores 100 1-3, 951, 200 E 15, .621, 950 D
Higaturu Transport Pty Ltd 100 1 E 1 E
600,000 shares
Highlands Pacific Ltd4·.6614f 476,234 A 30,158,821 A
30,158,821 shares
Kagamuga Natura.l Products 1,145,000D 1,145,000n/a Investment Corporation of PNG lQO 8,660,957 E 8,660,957 E Livestock Development Corp. Pty Ltd 100 2,177,341 E 2,177,341 E
200,000 shares
Motor Vehicle Insurance Limited (MVIL) 100 241,922,5 30 D 241,922,530 E N1uginl Insurance itd WO (4,348,860 } E {4,348,860} !;'
Oil Search Limited 17. 56 2,213,763,033 A 1,437,176,534 A
196,604,177shares Kl l. 26
Open Bay Pty Ltd 20 (5,309 ,P45) E (51 309,045) E
443,000 shares
Finance Pacific Ltd 100 I 1. E 1 E
Pacific Rim Plantations Ltd 20 6,327,1 88' f 6,327 , 788 E.
14,661,995 shares
PNG Damslld mo 97,648,89()! ,E 97,648,89 0 E
PNG Power Ltd 100 459,s2s,oocr D 454 , 828,000 D PNG Forest products Pty Ltd 20 5,339,60ct ti 5,339,600E
788,000 shares
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*Vafoatlons-for2"006 odjusted t.o reflect rnOst recent financial statements for the:GBT

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GOVERNMENT OF PAPUA NEW GUINEA PUBLIC ACCOUNTS
REVENUE FUND RECEIPTS BY REVENUE HEAD FOR THE PERIOD ENDING 31ST DECEMBER 2007

STATEMENT J

RECEIP.TS HEAD: 126 DEL>.ARTMENT Of CORRECTIONAL SERVICES
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I DESCRIPTION OF SUBHEAD f O RI GINAL REVISED l
ESTIMATE , EST. (Note 7)

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DESCRIPTION Of SUBHEAD
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175: 548 PNG ff.ARBOURS BOARD
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176: 548PNG HARBOURS BOARD DESCRIPTION OF SUBHEAD

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179: 540 NATIONAL WATER ANO SEWERAGE BOARD
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AGENCY: 540 NATIONAL WATER AND:SEWERAGE BOARD
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RECORD OF LOSSES AND DEFICIENCIES OF PUBLIC MONF.,YS FOR F1SCAL YEAR 2007.

DEPARTMENT	OFFICE/ DIVISION	LOCATION/DATE WHEN THE LOSS OCCURRED	AMOUNT OF LOSS	AMOUNT RECOVERED	BRIEF DESCRIPTION OF THE LOSS AND THE ACTIONS TAKEN
Educ ation	HROD- Personnel	HQ/\V aigani	5,2 61 I 95	NIL	Theft and fraudule nt negotiation of a sala r)' cheque for Mr. Pat Bid i Wanega , a teacher at Waiori Community School in Cen tral Pw vince .Loss was considered for write off as the person responsible for the losi. has resigned and left the

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I Departmenl .tcation	HR.OD- Personnel	HQiWaigani	11,661 I 91	NIL	A Salary cheque was made payable to an Alias Peter Kalci under fulse 1 pretence as a High School Teacher I teaching at Pil ika mbi High School in

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Enga Province. Matter referred to
I Police for further investi ga tion.

Educ a tio n HR.OD- HQ/Waigani 747 50 N1L j Payment of Salaries in to wrong
bank Per onncl I account -Peter Kukan Nen 471828 by
' Mr. Damacio Taia a staff clerk of
i Dept. of Education. Mr. Nen a Primary school Teacher at Wapai Conu nunity school in Enga
Province .
Matter referred for compensat!on by Mr. Dama cio Taia who is responsible for the loss.
Education Audit & Lae Technical 10,708 40 NIL Break and en ter and stealing of lae
Fraud College Technical College equipments valued
Control at K l 0,708.40 by criminals at the
Branch early hours of 17/05/07. The matter
wasrefei:red lo Police to investigate.

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SECTION "B"

OBSERVATIONS BY THE AUDITOR GENERAL ON THE GOVERNMENT'S FINANCIAL STATEMENTS AND THE PUBLIC ACCOUNT

5.2 An Overview of My Audit Report

My audit opinion on the Government's financial statements consists of four paragraphs followed by three reservations. The opening paragraph details the scope of the audit and identifies the financial statements that I have examined and reported on. The second paragraph is referred as the "Responsibilities for the Financial Statements". The next paragraph is titled "Responsibility of the Auditor General". The fourth paragraph, commonly called the "Opinion" paragraph, contains my conclusions about the government's financial statements.

5.2.1 The IntroductionParagraph

The introduction paragraph begins by listing the financial statements covered by my opinion. These financial statements, and the information they convey, are summarised below:

Financial Statements

- Statement "A"
- Statement "B"
- Statement "C"
- Statement "D"
- Statement "E"
- Statement "F"
- Statement "G"
- Statement "H"
- Statement "I"

Information Conveyed

Statement of Public Account Balances. This is the Statement of cash positio n for the Government at year-end;
Consolidated Revenue Fund - Receipts and Expenditure. This Statement summaries the receipts and expenditure for the year;
Trust Fund - Receipt...and Expenditure. This Statement shows the list of monies held by the Government for other persons or purposes;
Statement of Sources and Application of Funds. This Statement shows the details of the sourc es and application of funds during the year;
Trust Fund - Particulars of Investments. This Statement shows details of Trust Accounts funds/monies that have been invested;
Statement of Direct Investments, Capital Contributions and Equity Options Rights. The purpose of this Statement is to show the Government's investments and ownership in companies and statutory authorities;

Statement of Public Debt. This Statement shows what the Government owes to other parties;
Statement of Lending. This Statement aims to show what is owed to the Government by other parties; Statement of Loans guaranteed by Government ;. This Statement shows the value of commitment of the Government to lenders of monies for loan recovery in the event of re-payment defaulted by borrowers.

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- Statement "J"

- Statement "L"

Receipts classified under Heads of Revenue Estimates. The Statement shows details or receipts as summarised in Statement 'B'.
Expenditure classified under Appropriation Division. The Statement shows the details of expenditure as summarised in statement ' B' .

Statements "A", "B", "C", "E", "J" and "L" are maintained by the Department of Finance' s accounting system. Statements " D", "F", " G", " H" and "I" are Memorandum statements that are drawn from the accounting system, but are nevertheless financial statements in their own right that convey financial information to users and the public.

There are certain accounts, records and registers and procedures that also relate to the Public Accounts that I find necessary to audit because of their importance in the accountin g system that produces the Public Accounts. I have included these also where necessary in my report.

It is important to note that my audit opinion relates only to these accounts and related notes as presented in the Public Accounts of Papua New Guinea.

5.2.2 Para raph on Responsibilitiesfor Preparation of the Financial Statements

This paragraph explains the responsibilities of the Minister for Finance and Treasury, the Secretary of the Department of Finance and Heads of Public Service Departments.

The Minister for Finance and Treasury is responsible for the supervision of the finances of Papua New Guinea and for causing the preparation of a detailed statementof the receipts and expenditure of the Public Account and to send it to the Auditor-Generalto be audited. The Minister is also required to ensure that Parliament is informed of all transactions involving public moneys.

The Secretary of the Department of Finance is responsible for the management of the financial affairs of the Government of Papua New Guinea. The Secretary is also responsible for the preparation and presentation of the Public Account and for the information co ntained therein.

Heads of Departments of Public Service are responsible for the efficient management of their departments, including for maintaining proper accountin g records and ensuring that expenditure is properly authorised and applied for the purpose for which it was appropriated.

5.2.3 Para,1'raph on my Responsibility

This paragraph states that the audit work on the government' s financial statements has been conducted according to the International Standards on Auditing. I use these standards and practices to ensure that my audit is conducted with appropriate rigour and professionalism.

The main objective of the audit was to ensure that the reported financial statement balances are in agreement with the accounts and records and to ensure they show fairly the financial operations during the period and the state of affairs at the end of that period. The audit of the Public Accounts included a verification of the balances reflected in the Statements with those

appearing in the Main Appropriation Ledger and Trust Ledgers. Verific at ion of some balances required obtaining confirmations from third parties.

The result of the audits performed at various departments and agencies that generate a significant portion of the expenditure and revenue has also been considere d.

In addition, I have performed test of controls, to assess the accuracy, completeness and reliability of accounts from which balances are generated for the financial statements. This audit was not required to search specifically for fraud and therefore the audit can not be relied upon to disclose all such matters. However, the audit was planned and executed so that I can have a reasonable expectation of detecting material misstatements resulting from irregularities, including fraud.

5.2.4 The Opinion Paragraph

The opinion paragraph contains my conclusions about two matters. Firstly, whether the financial statements were based on proper accounts and records and secondly, whether the financial statements presented fairly the government's financial position, results of operations and the financial requirements.

As has happened in the last four years, I am unable to form an opinion on the Government' s 2007 financial statements for the reasons set out in the three reservations.

Reservation 1 Limitation of Scope

I noted during the course of my audit, a number of qualificatio n areas that limited my scope of audit. These limitations significantly affect and limited my audit coverage that I could not satisfy myself to the extent to which I could form an opinion on the financial statements.

Reservation 2 Accounts and Records

I also noted during the course of my audit that there was a lack of records and poor controls in the maintenance of records to account and vouch for the accuracy and completeness of records. I listed four qualification areas under this reservation in my opinion paragraph to the readers to explain this situation.

Reservation 3 Legal and Regulatory matter

In addition to the scope limitations and accounts and records, which give rise to a number of qualification areas, I also reported breaches of the Constitution and the PF(M) Act. I listed four qualification areas under this reservation to the readers to explain this situation.

5.3 Materiality and Audit Assurance

In determining my audit of the government's financial statements, I conside r two main facto rs that determine the nature and extent of the work required. The first of these is called "materiality". This represents a threshold: if total errors fall below this threshold, the financial statements present information fairly; if they exceed this threshold and are not corrected, I refer to them in reservations to my opinion. The second factor is called " audit assurance". This

represents how certain I want to be that my audit will reveal total errors that equal or exceed the materiality threshold.

At the conclusion of the audit, I determine whether the effect of uncovered errors in the financial statements would mislead those who use the statements. If the effect would be to mislead, I include a reservation in my audit opinion.

In conducting my audit, I cannot be I 00 percent certain that it will reveal all errors in the financial statements that, individually or in total, may be material. The size and complexity of the government, as well as cost considerations, make it impractical for me to examine all or even most of the K6.95 billion worth of individual expenditure transactions and K8.46 billion worth of individual revenue transactions entered into during the year. It is al so impractical for me to examine all or most of the individual transactions pertaining to the Trust Fund. Statement "C" - Receipts and Payments of the Trust Fund, disclosed K2.93 billion in receipts and K2.06 billion in expenditure during the year 2007.

What I can do is verify samples of transactions and account balances, determine whether significant financial controls within the government are working and can be relied on to produce complete and accurate data, and carry out other procedures - such as confi rming year-end balances with third parties and performing analysis - to identify anomalies in the reported data.

What this comes down to is exercising professional judgement about how much auditing is required to provide reasonable assurance to users of the statements that they can rely on the reported results and not be misled.

5.4 Auditing for Compliance and Parliamentary Authorities

As part of my audit of the Government's financial statements, I examine and verify compliance with parliamentary authorities to spend, borrow, and raise revenues. I do this to the same level of materiality and audit assurance as that established for my audit of the government' s overall financial position, results of operations, and financial requirements. However, this le vel of materiality is significantly higher than that of many of the authorities being audited.

For example, spending authority is granted by Parliament in Appropriation Act s, commonly called votes. Many departments are responsible for several votes, whose size and complexity vary greatly. Funding in these votes ranges in total from a few thousand kina to several millions of kina. It would be impractical for me to audit each vote every year to a level of materiality appropriate to its size.

I have performed verifications of most departments and agencies. The result of this work is included in Part II of my annual report to Parliament.

6.0 THE ROLE OF THE PUBLIC ACCOUNTS OF PAPUA NEW GUINEA

Important features of the Papua New Guinea system of government depend in part on the availability of good financial information. The Public Accounts are a major source of annually reported financial information.

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

- consent of the governed;
- an executive entrusted with powers;
- imposed limits on the executive's use of its powers; and
- oversight of executive actions.

Government in Papua New Guinea is based on consent, formally given by representatives in Parliament through the annual appropriations of supply, approval in principle of th e budget and passage of specific legislative proposals. Information on the intended benefits, costs and financial effects of government proposals is needed before Parliament give s its consent. Subsequently, periodic reporting of financial information is needed to compare actual costs, tax burdens and other financial effects with those intensions and for which consent was given.

An effective system of governance provides for a strong Executive entrusted with greater power. The historical reasons for a strong Executive are several, including the belief that legislation cannot be formulated to foresee every eventuality; consequently, the executive is entrusted to exercise discretion in the application of laws. Reports of the actual costs and financial effects of government activities are needed to assess whether, from a financial point of view, Executive discretion was appropriately exercised.

Limits on the use of Executive authority are a constitutional strategy to protect individuals' liberty from abuse of the powers of the State. Some limits are financial (for example, the system of parliamentary appropriation) and financial records are needed to show whether the executive has complied. Another important limit is jurisdiction; for example, the Parole Board has sole authority to decide who is released on parole. The practice of granting separate appropriations for the National Judiciary and National Parliamentary services facilitates the control imposed by jurisdictional limits and promotes financial accountability of the Speaker, Minister and public service managers.

The oversight of the Executive in Papua New Guinea is performed by the parliamentarians, the public and interest groups. Parliamentary oversight is as extensive as Members of Parliament make it. Some oversight is accomplished through news media. The possibility of review helps deter behaviour such as unfairness, fraud, waste, extravagance, embezzlement and misappropriation. The Government should take the initiative to provide basic information in the Public Accounts that will help the system of governing operate properly. But Parliament must also demand good information.

The Department of Finance has embarked on a project of improving the central accounting and reporting systems, and on departmental systems. The Government is identifying and pursuing opportunities for improvement and Parliamentarians can have a voice in these deliberations.

7,0 THE NEED FOR A CONCISE ANNUAL FINANCIAL REPORT

Publication of a comprehensive but concise annual financial report, similar to annual reports published by corporations in the private sector, would help parliamentarians and others obtain a complete picture of Government without getting buried in massive amount of detail.

At present, the financial statements are presented in the Public Account of Papua New Guinea which is massive in proportion, not easily understood, and the approach is not focussed on presenting the Government's financial information.

My staff are working with the Department of Finance (Finance) staff to identify approaches to improve the presentation of the Public Accounts and move the presentation and disclosure of the Public Accounts toward Financial Reporting Under the cash Basis of Accounting issued by the International Federation of Accountants. However, other users of the statements shou ld also be consulted to address their requirements.

In the following paragraphs I consider in more detail my audit observations on the government's financial statements and the public accounts.

8.0 AUDIT RESULTS

Finance has put considerable effort into improving the year-end preparation process of the financial statements. This included both improved documentation that supported and validated the financial statements balances as well as maintaining constructive relationship with the audit team. Finance has also acted on some previous audit findings and implemented audit recommendations.
It is pleasing to note the co-operation between Finance and AGO staff in resolving most of the issues identified during the course of the audit. The efforts made by the Finance in identifying all operating trust accounts including the common ground that has developed in the approach to getting Departmental Heads to also co-operate in this exercise, and to comply with legislative requirements is commendable. This Office realizes that, to obtain high level of assurance in this area may take some time but the efforts to achieve this aim are continuing.

However, the number and the magnitude of the audit issues identified in the course of the audit indicate that overall, there are significant weaknesses in the control environment. At present, the control activities, such as delegations, authorisations, reconciliations, data processing, and system access, are not sufficiently robust to prevent, detect or correct error or fraud.

9.0 AUDIT OBSERVATIONS

9.1 Statement "A"

Statement "A" is intended to present the Public Account Balances that are represented by cash at year end.

The audit issues identified during the audit are detailed below. The audit findings of bank reconciliations, permanent advances and cash-in-transit and provincial treasury operating accounts have remained unresolved for the last three years.

BANK BALANCES

9.2 Bank Reconciliations Observation
Part 3 - Public Accounts Division I Section 4.7 of the Financial Instructions states that:

"It is a mandatory requirement that all Heads of Government Departments and Statutory Authorities reconcile their bank accounts on a monthly basis. Bank balances should be reconciled against the Cashbook balances and the reconciled Cashbook balances should agree with the Appropriation Ledger for National Government Departments, Provincial Governments and Local-level Governments transactions. Copies of all Bank Reconciliation Statements should be forwarded to the Public Accounts Division of Department of Finance, no later than 14 days of the close of each month. Failure to comply with the above Financial Instruction may necessitate withholding further issuance of Warrant Authorities".

A review was undertaken to determine the extent to which departments are complying with this requirement.

(a) National Departments' Drawing Accounts

Audit on the status of bank reconciliations for National Government Departments was conducted to observe the extent to which the departments are submitting reconc iliations and the extent to which Department of Finance monitors compliance with set guidelines and Financial Instructions. It was noted that not all departments are submitting their bank reconciliation statements within the 14 days after the close of accounts for each month as stated in the PPM Act. The issues were as follows:

• Bank reconciliations were current in only three out of 14 agencies tested and reported in Part 11 of my report on the audit of National Departments. However, even in those three agencies, significant unreconciled items were carried over for long periods of time. One agency, out of eleven (11) had their last bank reconciliation completed back in 2003.

• Based on the more recent reconciliations in 5 agencies, the difference between the bank balances and the cash book exceeded Kl24 million. Of that amount, the unpresented

I.

The PTOA bank accounts are a depository for a range of fund sources. These include the receipt and payment of National Government grants for Provincial Government, funds for the operation of the Provincial Treasuries themselves, funds of other agencies for national functions in the provinces, and the receipt and payment of trust transactions such as bail monies, child maintenance and customs overtime. Therefore the value of K97,853,95 l held in the 19 PTOA bank accounts can represent a component of both trust monies and unspent Provincial Government grant monies as the other sources of funds if unspent should be returned to Consolidated Revenue Fund.

As part of the annual close of accounts process, a financial instruction is forwarded to each Provincial Treasurer and this instruction includes the requirement to draw a cheque for any unspent Provincial Government grant funds from the PTOA and deposit to the Provincial Government bank account to ensure the PTOA does not include unspent grant monies. Finance when conducting year end training in the close of accounts process, re-iterates this requirement.

If the provinces are recording in PGAS both the revenue (grant received) and expenditure (payments), there should be no unspent Provincial Government grant monies in the cash at bank balance in both PGAS and TMS. There are some instances however where the grant received is being carried on schedule 7 of the PTOA bank reconciliation and therefore not in PGAS/1MS.

For the 2008 Public Accounts, it is planned to undertake a detail review of the recording of

Provincial Government grant funds to ensure that the PTOA balances are not materially overstated through the inclusion of unspent Provincial Government grant funds.

10.0 Statement "B"

Statement "B" represents the summary of Receipts and Expenditures of the Consolidated Revenue Fund. This Statement shows the Operating results of the Consolidated Revenue Fund and is similar to a Profit and Loss account of a commercial entity.

Conclusion

Our audit validation of the Trust accounts listed on Statement "C" is incomplete without the sighting of the relevant Trust Instruments.

Recommendation
Finance should take stock of all the existing Trust accounts that had been sanctioned by valid Trust Instruments and up-date the Trust accounts register.

We are working on updating the trust account register as part of continuing trust rationalization exercise to see which accounts are dormant and redundant and whic h trusts to continue to be operated. An updated management register will be finalized in the process.

11.5 Follow up of Fraud Squad Investigation Observation
In a letter dated 7 November 2006, the then Acting Secretary of the Department of Finance advised the AGO about the misappropriation of over K3 million from each of the Gobe and Kutubu Royalty Trusts. The AGO noted that this matter has been referred by Finance to the Fraud Squad and is currently being investigated. The AGO had previously recomme nded that the matter should be referred to the Ombudsman and the Leadership Tribunal. We understand that no action had been taken on our audit recommendations.
The 2005 Public Accounts audit also recommended that the misappropriation of over K3 million from each of the Gabe and Kutubu Royalty Trusts should be reported to the Ombudsman and the

Leadership Tribunal. This was required to be followed up as a matter of priority.
As at the time of audit in November, 2008, no positive response has been received from Finance and the above matter still remain outstanding.

Conclusion

Our enquiries indicate that these fraud cases are yet to be reported to the Ombudsman Commission. We understand that the Department of Finance attempts to determine the status of progress and formal notification is yet to be received from the Fraud Squad.

Recommendations

The AGO views the misappropriations from Gabe and Kutubu Royalty Trust accounts to be very serious matter and a revelation of gross flaws in systems of management, and considers that Finance should pursue all avenues for cause offustice to resolve this issue without any further delays.

Finance Internal Audit and Compliance Branch should conduct a follow up review of the progress of the Fraud Squad investigation and advise the AGO periodically.

Accounting Frameworks and Standards Division has communicated with the Internal Audit Division and the Inspection Division of Treasury to continue following up and pursue further.

11.6 Recording of Trust Accounts Transaction Obsenrations-.
Payments not in Accordance with the Trust Instruments

The AGO has undertaken a comprehensive review of 2007 Trust accounts' transactions in a number of agencies. Consistent with the audit findings from previous years, the agencies are failing to ensure that collection of receipts and payments from Trust money are managed in accordance with the requirements in the Trust Instruments.

The three largest Departments that deal with significant numbers and balances of Trust funds (Department of Petroleum and Energy, Department of Works and Implementation, and Department of National Planning), do not maintain proper records and proper procedures are not adhered to when making payments from the Trust accounts. Trust monies were allowed to be misappropriated and used for expenses of recurrent nature, such as domestic and overseas travels, overseas study, purchase of vehicles and computers, and payments of wages for casual staff. Details of these findings were reported in the 2007/2008 Auditor-General's Part II Report.

Trust Accounts not Held on the Government Accounting Svstem - PGAS
When examining the trust account status of six departments, the AGO identified 18 Trust accounts that are not operating through the PGAS accounting system. When records are not properly

maintained, monitoring of expenditure and compliance by the Department of Finance cannot be effectively performed.

Signatories to the Trust Accounts

The review in 2007 of the Trust accounts' transactions in a number of agencies revealed that persons are being appointed as signatories to Trust accounts without proper designated authorisation to be passing transactions on behalf of the agency.

In at least two instances, (Konebada Petroleum Park Authority Trust Account and the Central City Development Project) the Trust Instruments nominated a project manager to be signatory to the Trust Account, a person outside the public service who was the same project manager for the two projects. This person was not delegated the power to sign cheques under Section 33 of the PF(M) Act which states that:

"no account shall be paid unless the payment has been authorized by an officer appointed to do so by the Departmental Head of the Department for which he is responsible".

The AGO considers that there was non-compliance with the PFM Act as the project manager was one of the counter signing officers although he was not delegated the authority to do so.

It should be further investigated and put to a legal test as to whether these Trust Instruments were valid and that they were in accordance with the legal requiremen ts under the PFM Act at the time they were drawn up.

Conclusion

Monitoring, reviewing and reporting of irregularities by Finance is virtually impossible especially when the Trust accounts are maintained outside the PGAS system or payments are made by persons without proper financial delegation. In addition, payments that are made contrary to the Trust Instruments do represent breaches of the PPM Act.

Recommendation

The AGO recommends that Finance should implement sanctions under the PFM Act to Departments/Accountable Officers who continue to:
• make payments contrary to the Trust Instruments;
, do not submit monthly bank reconciliations; and/or
• do not keep the accounts on PGAS.

For example, the Secretary of Finance could, as a last resort, suspend the operation of a Trust Account until such time he is satisfied that there is a full compliance with the provisions of the PFMAct.

Finance should ensure validity of appointed signatories to the trust account well in advance of drawing and approving the Trust Instrument. Furthermore, a general review should be undertaken on all the operating Trust accounts to determine the validity of the provisions governing their operations.

Finance insists on all trust account to be kept in PGAS and operated in accordance with the trust instrument effecting its establishment. Letters of reminders and follow ups are being taken by the department to ensure agencies/departments submit bank reconciliations on timely manner. Penalties will be taken as part of the new measures.

12.0 Statement "D"

Statement "D" provides details of the sources and application of Government funds for the financial year ending 31st Decemher 2007. It provides the actual movement of cash as it is received and used during the year.

Statement "D" was verified with the related statements " A"," B" and "C." The movements (increase/decrease) in sources and application of funds were agreed with the balances reported at the beginning of the year as well as at year end.

Audit Observations

• AGO could not determine the correctness of the value of investments listed in Statement "F" due to the absence in valuations of the investments managed by IPBC. The AGO was advised that some of the valuations reported by IPBC in the General Business Trust (GBT) are not as current or accurate. Consequently, without factual verification of valuation method used audit was unable to place reliance on the valuatio n applied on the investments for the year under review. It is considered impractical to have the independent valuations conducted each year by the IPBC. International Financial Reporting Standards (IFRS) require that it should be conducted at least once every three years.

• Thirty three (33) percent of the values of the investments totalling KI .99 billion disclosed are based on the unaudited financial statements prepared by the investment entity.

Conclusion

The AGO understand that the IPBC operates in isolation from the Department of Treasury. According to Structural Policy and Investment Division (SPID) within Department of Treasury, the Division has no knowledge of who values the investment or what method is applied. This information is only known to IPBC.

These issues were reported in previous years and continue to remain unresolved in 2007.

Recommendations

· Investments should be revalued on a regular basis to ascertain the correct and current' value of the State's investments. The AGO expects that, as a minimum, the IPBC arrange for an independent valuation of each Investment at least once in every three years.

• A formal system of independent checking should be initiated by Department of Treasury to provide greater assurance over the completeness of Statement 'F'.

• The Department of Treasury needs to improve on the maintenance of its investment register to include details such as:

o Current names of the institutions in which shares are invested;
o Name of the registered shareholder (as appearing in the share certificate);
o Date of acquisition of shares;
o Share certificate number and the number of shares listed in that certificate; and
o Cost of the shares or details of bonus issue (for each share certificate listed).

Valuations

Treasury acknowledges and shares the concerns raised by the AGO regarding its inability to place reliance on valuations produced without factual verification occurring e.g. via independent valuation or publicly listed trading price data.

In regards to the valuations reported by IPBC in the General Business Trust (GBT), Treasury notes the challenges faced by some of these investments in providing current and accurate values. These challenges include the: political environment; absence of historical financial accounts (e.g. past years' accounts are missing); lack of in-house skills to manage financial records and the lack of expertise available in PNG to reconstruct historical financial data (or the resources to pay for this to be done).

While acknowledging these challenges, Treasury is working hard with stakeholders to improve financial transparency relating to Statement F. For example, Treasury has added significant guidance on financial perfonnance within its notes section to the 2008 Public Accounts. This includes listing the proportion of investment values which are not based on independent valuation or publicly listed trading price data.

Further, Treasury's forward work plan proposes meetings with the IPBC and Department of Public Enterprises to discuss the comments raised by the AGO and the challenges faced by the IPBC's investments. At these meetings, Treasury will emphasise the importance of financial reporting integrity and note that this can not be achieved without current and accurate valuations being provided to stakeholders by the IPBC and its investments.

This discussion will be aided by Treasury's recent work on a dividend policy for State investments. As this policy requires that the State receive a dividend based upon a return on equity (RoE), there will be a strong incentive for the IPBC and its investments to ensure an accurate asset value is detennined and maintained.

Qualitv Assurance

Quality assurance systems have been introduced for the 2008 Statement F. Investment Register Treasury very much welcomes the idea of improving the current register and also agrees to the proposed details to include on the register. However, the proposed details will not be available for the current (2008) Public Accounts (statement F) due to time constraints to collect the information but it will be requested from entities for the 2009 Public Accounts.

15.0 Statement 'G'

Statement 'G' captures the borrowings made by the State together with the repayments of principle and interest paid to the lending authority. The Statement also high lights the net gains and losses caused by fluctuations in the currency exchange rates.

• Finance ensure that an independent verification for accuracy and completenessshould be conducted prior to the submission to AGO. This is to ensure that the receipts and payments reported in Statement 'G' and related Statements viz 'L', 'J' and 'B' are in agreement before the Statements are submitted to the AGO.

• The FED should review the management practices to include the 'monitoring and managing of agencies' to ensure that the compliance with loan conditions are adhered to, (Eg; the agencies should submit annual audited financial statements of Trust accounts which should he a requirement in the conditions/terms of a loan).

• A control mechanism should he established which will ensure that, when a new Trust is established as a result of a loan agreement, the FED should liaise with the Finance Trust Officers to ensure that all relevant records are updated accordingly.

It The Secretary for Finance should make appropriate alternate arrangements during his absence to ensure that the payments are approved without any delay, in order to avoid any penalty charges being levied for late payments.
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Each of the four branches (ADB, World Bank, Bilateral & Domestic) within FED uses the same worksheets (Monthly Monitoring Forms, Drawdown Registers, Auction Results, Creditor Statements and Bank of PNG Maturity Structures) to compile Statement G and therefore, records should be consistent throughout the four branches.

These working sheets are presented to AGO upon request. The balance of all foreign currency loans are converted to PNG Kina as reflected in the Statement G.

For 2008, Public Reporting Branch has undertaken a review of the values reported in Statement G to other statements in the Public Accounts. If there are reasons for differences, these will be disclosed in the notes to the Public Accounts.

The monitoring and managing of Projects are done by the Implementing Agencies, the Department of National Planning (only manages the GoPNG component), the Creditors and FED. The Agencies are responsible for the provision of annual audited financial statements of the Project Trust Accounts. The annual financial statements can be obtained through Project Management Unit or through FED upon request. FED's responsibility is to ensure that the trust instruments are signed and accounts created for the purpose specified under the loan agreement. The management of the trust accounts falls under Finance's Accounting Standards & Frameworks Division. The issue of making appropriate alternate arrangemen ts during the absence of Section 32 officer (Finance Secretary) is a management issue and therefore will be dealt with by the Departmental Heads (Treasury and Finance). However, we are in the process of having the function of Section 32 Officer transferred to Department of Treasury.

16.0 Statement 'H1

Statement 'H' summarises the State's negotiated loans on lending to statutory bodies and other organizations.

Observations

16.1 Register of Loans not maintained

• For internal records and control mechanism the Department does not maintain a Loans register. AGO has verified that there is no Loan register.

16.2 Minor Discrepancies as a Result of Exchange Rate Fluctuations

• The AGO identified minor discrepancies in the closing balances as a result of exchange rate fluctuations, there were no transactions during the year. It was ascertained that these errors were spreadsheet processing errors and were corrected by the Finance during the course of the audit.

• The schedule below provides a list of companies with unsettled loans tota lling Kl.96 lmillion. These companies' operating status is still unknown as at the time of audit. The AGO has also noted that some of the companies have outstanding loan balances that go back in excess of 30 years.
.. - - - ' - .. '

• The schedule below provides a listing of companies with unsettled loans that have been deregistered as they are no longer trading:

No	ComoanvName	Loan Amount K	Interest Ratel%)	Status	Tvoe of Venture
1	BalawaiaCo Ltd	500,000	10	Deregistered	Cattle Ranch
2	GounaLtd	260,000	10	loeree:istered	Construction
3	Sol!eri Rubber	1,460,000	7.5	Deregistered	Rubber Develon
4	Kaugim Plantation	610,000	10	Dere!!istered	Plant Purchase

It was noted that the deregistered companies have outstanding loan balances that go back in excess of30 years.

It is unlikely that the balance of loans from deregistered companies will be recovered. No records were available to ascertain whether proper follow-up actions had been taken to enforce the recovery of these loans.

Treasury is responsible for recording and maintaining of the State Guarantee Register and will liaise with it's counterparts to come up with the registry. This has not been done in 2008 as records were supposed to have been kept by Structural Policy & Investment (SPID) Division of Treasury. SPID was responsible for the negotiation processes of State Guarantees and information was not available due to staff turn-over and other related issue s.

Currently, there is an outstanding total of K97,847 comprising four creditors and borrowers. Letters were sent out to each of them to furnish to the Department of Treasury any transactions under the Government Guarantee from 2008 onwards for the purpose of recording and monitoring of this contingent liability.

18.0 Statement 'J '

Statement 'J' summarises the receipts by various government departments by vote and item level. The total for each department is further summarised in Statement 'B'.

18.l Revenue Collection Observation
The audit of Statement 'J' has identified discrepancies between the Departmental records and Statement 'J' in respect of IRC - Customs & Taxation and Department of Lands & Physical Planning which are highlighted below:-

{g)_ Internal Revenue Commission (]RC)

The variances between Statement 'J' reported figures and IRC figures indicate that

- The Taxation revenue of K4,648.7 million disclosed in Statement 'J' was overstated by 1<302.4 million compared to the revenue summary report from IRC which reported an amount of K4,346.3 million.

- According to the Statement of Overall Debt Summary Report for year ended 31 December 2007, a total of K1.22 billion was in Direct Tax arrears. This amount was reported by the Taxation Office (of the PNG Internal Revenue Commission) at 31 December 2007.

- The revenue of Kl,373,000.00 million from the Bureau of Customs as disclosed in Statement 'J' is understated by K4.9 million since the revenue summary report from IRC which reported an amount ofKl,377.9 million.

fJ2l Department of Lands and Physical Planning (DoL & PP)

The variances between Statement 'J' reported figure and DoL & PP indicate that;

• The total revenue ofK20.9 million disclosed in Statement 'J' is overstated by K2.5 million compared to the revenue figure from DoL & PP which was KI 8.4 million.

Conclusion

There are significant variations between Statement J and the revenue figures from the two respective agencies, namely; IRC - Customs & Taxation and the Department of Lands & Physical Planning.

Recommendation

The Departments of Finance & Treasury should ensure that the records ofI RC and DoL & PP are reconciled and corrective adjustments are made on the variations. The revenue procedures at DoL & PP should be reviewed so that the budget recognizes the total of 'demand notices' raised to lease holders.

We can only surmise that these differences occur from timing difference. What is contained in the TMS report are revenues that have been actually collected and deposited in WPA, while these agencies IRC and Department of Lands reports on their collections but not necessarily deposited into WPA, hence, the timing differences. It should be noted here that IRC in particular reconciles their accounts as shown on the attachment. TMS reports are also provided to all relevant agencies on a monthly basis to be their basis in reconciliation. It's the heads of the Department responsibility to reconcile their revenue accounts as provided for under Section 5 of the PFMA.

Further AGO Comment

The AGO acknowledges that the responsibility for reconciliation rests with the individual Departments. However if an adjustment is made after 31 December by Fina nce it should be the responsibility of Department of Finance to reconcile these records. One way of addressing the issue could be to open an RPM account in

Provinces for each Department and give specific instruction to transfer the balances to WPA at the end of every month.

In its response to the same issue raised in 2006 audit of the Public Accounts, the Department of Finance responded as follows: "The oversight in this regard highlighted by the above issues would be a periodical reconciliatory process, preferably monthly, in future between Department of Finance and line agencies to verify data in order to avoid differences in financial and accounting information on the final; report outcome of each year."

18.2 Inadequate Forecasting of Revenue Observation

The forecasting of revenue including revised budget reviews of receipt estimates is considered unsatisfactory as there were significant variances between the revised estimated revenue figures and actual revenue received as shown below:

Group #	Description	Original Estimate (K)	Revised Estimate (K)	Variance	Actual revenues Collected (K)
3	Revenue from Loan Service Receipts	8,645,200	8,64,5 200	0	4, 579,779
4	Revenues from Grants	964,394,200	964,394,200	0	680,750,128
5	Revenues from Borrowings-Domestic	2,114,700,000	2,114,700,000	0	1,381,947,000

Our audit also noted that in five (5) instances, the original estimates were not revised to cater for the increase or decrease in revenue collection during the year as shown below:

K

The appropriate revisions were not taken up to adjust the Original Budget figures to reflect a realistic revised budget figure when comparing to the actual revenues received per quarter.

Conclusion

The departments are not accurately estimating their revenues or updating their revised estimates. The response from Finance was that, revenue estimates were not update d for these items in the Supplementary Budgets.

Recommendation

The forecasting of revenue including revised updates must be done accurately and on a timely basis to ensure the variations are kept rea sonably low thus facilitating more effective planning.

1 1,)ep _ rtmeqt Q{ Tre _asqry Comment

The forecasting of revenue is undertaken regularly and in a timely manner. The Economic Policy Division of Treasury conducts three rounds of updates (forec asting) on economic indicators including revenue. These are done in April/May, July and November annually.

The first round feeds into the Budget Strategy Paper for the following year. The second round is released as official data in the Mid-Year Economic & Fiscal Outlook (MYEFO) in accordance with the Fiscal Responsibility Act. The third round forms part of the National Budget for the following year which is approved by Cabinet & NEC.

The first round set of update is official but confidential and figures are not released publicly. The second round of update is official and is released publicly on 31 July each year. The final round is official and is released publicly as part of the annual national budget in November.

The only time the PBS is updated is in November which is Budget time other than through varmints. While the MYEFO estimates are official they do not get loaded into the Programme and Budgeting System. To do so would mean the Government is revising the Budget and therefore would require the approval of Parliament. This in itself would be a very tediou s process.

A final set of numbers for the recent past year is provided in the Final Budget Outcome report which is released publicly by 31 March of each year. This is in accordance with the Fiscal

Responsibility Act. This report contains what the actual revenue was for the past year. The figures are extracted from the TMS.

Further AGO Comment

This issue has no effect on the financial statements. We brought it to Finance's attention , as the difference between the 'actual' and the 'estimates' were significant - in excess of 10%. It would be good reporting practice if Department of Finance explains the reasons for the shortfall in a note to the financial statements.

18.3 Foreign Currency Borrowing

• There are four methods of applying and accessing funds from Donor Agencies. These four methods apply to all four Sections within the FED Division of the Department of Treasury. (ie. World Bank, ADB, BICOM and Domestic Market). They are process through the following avenues:-
o Letter of Credit - for major Commercial/Infrastructure projects.
o Direct Payment (or offshore payment) - i.e. Bank to Bank payment where the Donor Agency (e.g. World Bank) pays direct to the Contractor's bank account. A Contra ctor can be a consultancy firm, a company, an individual or a corporate body. All contractors are screened through the Supply and Tenders Board internally and prior approval by Donor.
o Reimbursement- from GoPNG Counterpart Account
o Replenishment

(i) Where a Donor Agency (e.g. World Bank) replenishes/ refunds what funds have been utilised on a particular project. These are separate funds outside of the actual project funds. Terms and Condition s also apply.

(ii) Any funds not utilized or are outstanding after the loan drawdown lapses are liable for refund and automatically returned to the donor. It is a complex process and raises pertinent issues on the implementation process, one of which is, why these funds were not utilized during the imp lementation period. Land compensation or disputes is an example which may be a hindrance towards further implementation.

• Procedure:
1. Implementer's document project/reviewed;
2. Contract Agreement approved and signed (between Donor & Contractor);
3. Simultaneously, funds are drawn down; and
4. Open Trust account (depending on type of project) NOTE:
(i) No diversion of funds from project funds to recurrent/operating account.- (if found utilised for other purposes, are automatically traced and refunded to relevant trust account).
(ii) Any interests earned from draw down funds/trust accounts are transferred to Project Operational Accounts (i.e. GoPNG Trust Account).

Observation

The following observations were noted from our audit procedures on the accountable processes for applying and accessing of funds from Donor Agencies:-

(a) World Bank

• According to the officer within the Finance Evaluation Division of the Department of Treasury, responsible for the World Bank, three categories of Disbursement Drawdown claims or (Withdrawal Applications) were complied with;

o One under the Road Maintenance and Rehabilitation Project of loan amount USD 40,000,000 and facilitated by Department of Works and Implementation;

Q two disbursement claims or withdrawal applications complied with the Joan agreement under the Second Gazelle Restoration Project, which was facilitated by the Gazelle Restoration Authority ofloan amount USD 25,260,000.

This shows that there are currently two loan draw downs under the donor, World Bank, refer to details in Table below:-

Withdrawal Application
Loan
Key

Loan Title

Loan No
Loan Currency Amount
Agreement Date
Revised Amount

Rema rks

66/REM-66

2002002
Road Maintenance
IBRD: 7119-
PNG
USD 40,000,000

2002/08/12

NIL
OngoingDraw downs

67/REPL-67
-do-
& Rehabilitation Proiect
-do-
-do-
-do-

NIL
Ongoing
Drawdowns

68/KJSS-68

-do-
-do-

-do-

-do-

-do-

NIL
OngoingDraw downs

92/GRA-11-92

200001 I
Second Gazelle Restoration Project
IBRD4525 -
PNG

USD 25,260,000
200[)/01/19

NIL
Draw down loan
fullv utilised
97/GRA-11-97
-do-
-do-
-do-
-do-
-do-
NIL
Ongoing project

(b) ADB Pro;ects

• The total borrowings captured in Statement 'J' were confirmed with three ADB projects when verified against the records held by ADB Section of the FED of the Department of Treasury, as listed hereunder:-

o Revenue Head 37: Community Water Project
0 Revenue Head 06: Supplementary Road Maintenance
0 Revenue Head 03: Coastal Management Development

- K 3,057,531;
- K 1,579,403; and
- K 1,04 0,701.

• A variance was noted under Road Rehabilitation project with a value of K29,61 l,886 for the five Highlands Provinces, refer to details below:-

o Statement 'J' figure - K 29,611,886
o ADB section records - K 27,214,905
o Variance: K 2396.981

The variance was due to IDC (interest during construction) interest being char ged twice by the donor agency in July 2007.
Audit was unable to ascertain whether correction was made to reverse the double charge.

Conclusion

There have been untimely postings of Journal Entries by Department of Finance on fluctuations in the currency exchange rates.

Delays in remitting repayment by the bank to donor agencies can cause unnecessary penalty payments.

Recommendation

Improved internal control measures should be imposed to enhance an effi cient and effective maintenance of proper records and management ofreceipts.

FED has in place control measures to effectively and efficiently maintain proper records of receipts as well as debt service payments.

18.4 Differences between Statement 'J' and TMS Reports

Whilst we noted that Statement 'J' was in agreement to Statement ' B', we observed that the underlying TMS ledgers (revenue ledgers) were not supported by adequate records, such as:-

The Revised Revenue estimate figures maintained by IRC for Receipt Heads 170 and 172 were not taken up by Department of Finance in Statement ' J' and the TMS Reports resulting in huge variances between the two Departments.

Receipt head

Division

Original estimates

IRC revised estimates
Revised DoF & Statement 'J' figures

3,071,593,800

Variance
(K)

1,577 ,077 ,929

170

Taxation

3,071,593,800

4,386,840,000

172
Bureau of customs
1,058,295,400
1,306,500,000
1,058 ,295, 400
314,658 , 142

Total
4,372,690,400
5,936,141,200
4,372,690, 400
1,563,450,800

Conclusion

Figures pertaining to original revenue estimates appear to be understated in Statement 'J'

Recommendation

Finance should consider adjusting Statement 'J' to incorporate the observations noted above.

While the Internal Revenue Commission (IRC) does provide information on revenue collection, official numbers are released by Department of Treasury as part of the Budget.

The IRC revenue collections reports gross collection while the data that is posted in PBS and TMS reflect net collections. This is what is reflected as official data from Treasury for National Government revenue. The gross collections include provincial transfers such as GST and other deductions that need to be made before the National

Governments share is transferred, hence will not always match what is recorded in the PBS.

The revenue estimates reported in the annual Public Accounts can only be derived from those loaded into the PBS/TMS as they are the approved estimates.

Further AGO Comment

The IRC figure did not distinguish between gross and net amount. This would be checked in detail in the next IRC audit.

19.0 Statement' L'

Statement ' L' summarises the expenditure from the various Government Departments. The total for each Department is further summarised in Statement 'B' under various headings.

19.1 Budgetary Results

Statement ' L' of the Public Accounts captured the total expenditure for the fiscal year ended 31 December 2007 as KS,342,435,399 compared to the total Appropriation for the year under review totalling K9,840,254,800 - indicating an under utilization of funds amounting to Kl,497,819,401.

Expenditure under the four Appropriation Acts

Obsen:"ation

Section 210(3) and 210(4) of the Constitution provides that: "210. Executive initiative
i (3) Where, in the opinion of the Parliament, the proposed expenditurefor the services
of the Parliament or the services of the Judiciary is below the estimate submitted by the Speaker or Chief Justice respectively and is insufficiently adequate to meet the requirements of that service, the Parliament may increase the expenditure to an amount not exceeding the original estimates submitted by the Speaker or the Chief Justice, as the case may be, under Section 209(2B).

'(4) For the purposes of Subsection (3), the Parliament may re-allocate, or reduce and re-allocate, the amount of expenditure appropriated for any purpose."

Our audit revealed that the original appropriation of the National Parliament budget was revised upwards by an amount of K7,270,000 without the authority of the Parliament and contra ry to Section 210 of the Constitution.

Conclusion

Both the Departments of Treasury and Finance appear to have usurped the authority of the National Parliament in revising the National Parliament appropriation budget.

Recommendation

Departments of Treasury and Finance should urgently implement stricter internal control to ensure that spending of funds conform to all appropriate authorities and relevant laws of PNG.

Department of Finance and Treasury Comment

We note the Auditor General's recommendations. In line with the relevant Appropriation Acts, the Secretary's Advance facility or mechanism has been used to reallocate funds to revise the National Parliament's Appropriation upwards, to meet unforseen needs of the National Parliament. This authority has been delegated by the Minister for Treasury and Finance, under Sect 26 of the Public Finances Management
Act (PFMA), to the Secretary for Treasury, and has been the normal practice used up to now. For the future, we are taking steps to ensure this delegation is formally carried out in writing to the Secretary for Treasury.

Fprther AGO Comment

The Secretary's Advance facility or mechanism could be used to reallocate funds to revise the National Parliament's Appropriation upwards, to meet unforseen needs of the National Parliament. However, only the Parliament may increase the expenditure to an amount not exceeding the original estimates. The delegation does not include raising the aooropriation limit uowards.

19.2 Over expenditure

Perusal of Statement 'L' disclosed details of over-expenditure which were incurred by 59 National Government Departments and Agencies and Statutory Bodies totalling K386,749,477 under 1,208 items of the votes.

Conclusion

The over-expenditure is a clear violation of the legal requiremenst stipulated under the PFM Act.

Recommendation

Finance should seriously address the issues relating to over-expenditure being incurred by line departments and agencies. Finance should adhere to the legal requirement in the PF(M)
;4.ct and apply stringent measures to control and limit
expenditures within the agencies' approved budgets. These measures could include surcharging Departmental heads and CEOs for any unauthorisedexpenditure incurred above the approved budgets.

Much of the over expenditure relates to the recording of non cash expenditure journals for donor grants. Differences to budget may occur as a result of; postings to the wrong expenditure vote, donor expenditure being higher than anticipated when the original budget was developed or no budget included for the particular donor expenditure.

20. 0 OTHER MATTERS

20.1 Receiver of Public Monies

The collection of all monies for the National Government at the Provinces are deposited into the local Receiver of Public Monies (RPM) Accounts pending transfer and clearance of funds by the relevant bank direct to the Waigani Public Account (WPA).

The collections made at the Finance Cashiers Branch are banked into the BPNG RPM bank account and transferred periodically into the WPA bank accoun t.

With reference to the Public Finance Management Manual (Part 10 on Revenue Management and Division 3 on Revenue Collections), the audit observations made on the Receiver of Public Monies are noted below.

Obsenration

• There were delays in banking of monies noted from the Collectors Statements ranging from two to four days. The delays in banking of collections had remained the same as previously reported in the 2006 audit.
• The calculation conducted in audit on the FCB Receiver of Public Monies Account collections remitted to the Waigani Public Accounts aggregated to K120,3 l 4,632.
-. The TMS ledger under Bank Transfer to WPA - FCB Waiga ni TNO No.1-022 also recorded the remittance figure ofKI20,314,632 and appears to be in order.
• The TMS 130 Ledgers maintained by the Department of Finance disclosed the following remittance figures in respect of the Provincial Receiver of Public Monies:

TMS130 TNO	Provinces RPM Clearance Account	Total Receipts (K)	Total Payments (K)	Carried Forward Balance (K)
054	Central	522,530	522,530	0
055	Eastern Highlands	277,827		

277,827
0
056
ENB
276,100
276,100
0
057
East Sepik
661,429
661,429
0
058
Enga
985,800
985,800
0
059
Fly River
0
0
0
060
Gulf
22,200
22,200
0
061
Madang
4,927,428
4,927,428
0
062
Manus
504,578
504,578
0
063
Milne Bay
341,393
341,393
0
064
Morobe
3,817,Q90
3,817 ,090
0
065
New Ireland
1,594,250
1,594 ,250

0
066
North Solomons
6,229,800
6,229,800
0
067
Oro
101,600
101,600
0
068
Sandaun
1,013,105
1,013, 105
0
069
Simbu
588,700
588,700
0
070
Southern Highlands
299,500
299,500
0
071
Western Province
18,350,684
18,350,684
0
072
Western Highlands
245,900
245,900
0
073
West New Britain
395,171
395, 171
0
074
NCD
0
0
Q

Audit noted two accounts relating to Western Province that is TNO 059 and TN007 l . There were balances in both accounts in 2006 but not in 2007 thus, operating two separate accounts would weaken the monitoring of payments.

• Listed below are the Bank Account balances disclosed from the TMS 130 Ledger maintained by the Department of Finance.

TMS130 Provinces RPM Remittance TMS130 Closing Confirmed
TNO Clearance Received per TNO Account Revised
Account Finance Balances Figure
Records 00 {K) (K)
054 Central 522,530 088 94,822 Not known
055 Eastern Highlands 277,827 089 247 Not known
056 ENB 276 , 100 090 1, 994 Not known
057 East Sepik 661,429 091 1,209 Not known
058 Enga 985,800 092 161 Notknown
059 Fly River 0 093 0 Not known 060 Gulf 22,200 094
5,611 Not known 061 Madang 4,927,428 095 1,716 Not known
62 Manus 504,578 096 310 Not known
63 Milne Bay 341,393 097 2,416 Not known
064 Morobe 3,817,090 098 106 Not known
65 New Ireland 1,594,250 099 2,854 Not known
66 North Solomons 6,229,800 100 279 Not known
067 Oro 101,600 101 1,342 Not known
068 Sandaun 1,013,105 102 1,96 5 Not known
69 Simbu 588,700 103 799 Not known
70 Southern 299,500 104 7,990 Not known
Hi ghlands
71 Western Province 18,350,684 105 3, 17 5 Not known
72 Western Highlands 245,900 106 11 7 Not known
73 West New Britain 395,171 107 2,035 Not known
74 NCD 0 129 i 0 Not known
• The figures above were not verified due to non-availability of suppo rting documentation.

Conclusion:

• Reliance cannot be placed on the year-end bank balances due to no bank confirmation received from the Provincial Treasuries for the RPM Bank Accounts.

• Banking is not performed on a daily basis at the Finance FCB Branch. There were delays in banking of monies noted from the Collectors Statements, ranging from two to eight days.

Recommendation
• Collections should be banked daily to avoid the risk of theft or other unauthorised use.

• Provinces RPM bank balances need to be confirmed as at 31 December each year, in order to report the true balances as at year end Therefore the Department of Treasury must get year-end confirmations and retain such confirmations to support the figures disclosed in the Financial Statement.

The ending balances of all Provincial RPMs accounts were provided by BSP via e-mail. It is cumbersome for the bank to provide DOF individual certification on all the accounts as the original certification is given to each Provincial Government concern. Modem technology is resorted to in this case.

20.2 Secretary's Advance Observation

The Secretary's Advance mechanism is one in which the Executive is entrusted powers under the PF(M) Act to exercise its discretion to transfer funds to meet unforeseen circumstances which is a legal authority by the Appropriation Act.

Under Section 26 of the PFM Act the Minister may delegate his authority to the Departmental Heads of Finance and Treasury Departments. We understand that if the authority is delegated to the Secretary(s) this should be formally carried out each year, however no evidence was sighted during the course of the 2007 audit in this regard.

20.2.1 Limits and Conditions

(a) Section 24(a) of the Public Finances (Management) Act 1995 provides that funds transferred under Section 24 of the Act shall not exceed a sum specified for that purpose in an Act of Parliament. Various Appropriation Acts adopted by Parliament for the fiscal year 2007 provided the following provisions:-

Recurrent Appropriation

The Appropriation (Recurrent Expenditure 2007) Act 2006, certifie d on 16/05/07 provided as follows under Sections 3 and 4 respective of the Appropriation Act:

"3. ADJUSTMENT OF APPROPRIATION FOR NEW SERVICES AND AS BETWEEN SERVICES

Where there is insufficient or no appropriation to meet expenditure for a particular service, the Secretary for Treasury may direct the re-allocation of unexpended appropriation under the recurrent expenditure through the Secretary's Advance, provided that the total additional Appropriation so allocated does not exceed the amount reflected under the Secretary's Advance. "

'f4'. ADJUSTMENTS OF APPROPRIATION AS BETWEEN SERVICES

Where there is insufficient appropriation to meet recurrent expenditure, the Secretary for Treasury may direct the re-allocation of any unexpended appropriation under recurrent expenditure to recurrent expenditure provided that the total of re-allocation shall not exceed a sum of

K551,251,220. Funds shall not he transferred between programs, or between activities within programs, without the written approval of the Secretary for Treasury. "

Development Appropriation

The Appropriation (National Development Expenditure 2007) Act 2006 (No. J 5 of 2006) certified on 16/05/07 provided as follows:-

" 3. ADJUSTMENT OF APPROPRIATION AS BETWEEN SERVICES

Where there is insufficient appropriation to meet National Development expenditure the Secretary for Treasury may direct the re-allocation of unexpended appropriation under the National Development Expenditure to National Development expenditure, provided that the total of re-allocation shall not exceed a sum of K163,658,440."
(b) In summary, the limits imposed by the Public Finances (Management) Act and the various Appropriation Acts to transfer and re-allocate funds to meet unforeseen expenditures are as follows:-

APPROPRIATION ACTS

s 1t: CTIO N (24)/ (4}

SECTION (25)/ (3)

National Parliament
Nil
Nil
Judiciary
Nil

Nil
Recurrent Budget Appropriation
551,251,220
40,000,000
Development Budget Appropriation
I63,658,440

Nil
Suoolementary (Gas Equity)
Nil
Nil
Additional Aooropriation (vote 207)
No amount specified
No provisions made
TOTAL:

No less than K714,909,660
40,000,000

(c) In addition to the above limitation and conditions, Section 210 of the Constitution provides as follows:-
"210. Executive initiative
(1) The Parliament shall not provide for the impositionof taxation, the raising of loans or the expenditure of public moneys of Papua New Guinea except on the recommendation of the Head of State, acting with, and in accordance with, the advice of the National Executive Council.

it(2) Subject to Subsections (3) and (4), Parliament may reduce, but shall not increase or re-allocate, the amount or incidence of, or change the purpose of, any proposed taxation, loan or expenditure.

• Nine (9) paid vouchers relating to compensation payments totalling K390,295 were all paid on the basis of photocopied claims and not the original claims. Ther e were instances noted of which
o No sufficient supporting documents to validate payments;
o No death certificates were attached;
o No medical reports were attached
o No employee numbers were sighted;
o For payments made to Legal Finns, there were no legal docume nts sighted from the Finn s; and
o No approval from the Solicitor General's Office.

• AGO also noted payments made on reprinted cheque numbers ranging from 63 to 91. Management advised that when the electricity power is out during cheque runs, the computer automatically reprints the cheques when the power comes on again. No JEs were sighted to verify that the cheques have been cancelled. Original cheque number s ranging from 866717 to 866728 were not highlighted on the expenditure deta il as being presented.

• The Table below shows ten (I 0) cases of lung loss compensated payment to workers. The AGO could not verify the doctors reports as to the percentage listed and paid to the workers. It was also noted that there is no standard rating as to the percentages as shown below:

Date	Cheoue No,	Description of Goods/Services	Amount {I<\
21-03-07	858895	20% loss of efficient, lung sustained	5 000.00

27-03-07
859296
30% loss ofl une
7,500.00
27-03-07
859308
50% loss of rillht lung
6,250.00
10-04-07
859806
60% loss ofl ung
15,005.00
02-10-07
867588
70% loss of function to lunizs
8 7 5 0 .0 0
27-03-07
859304
75% loss of lung
9,375.00
03-05-07
860746
Como. 50% loss use of lung
6,270.00
20-04-07
860207
Final Comp. 20% loss of left lun!l
2, 525. 00
23-03-07
858997
F/final comp for 10% loss of Lun11:s
1,550. 0 0
05-02-07
856621
F/Final Como. for 70% loss of lunes
17,000.00

Conclusion

The safe keeping of payment vouchers is required in view of the missing vouchers noted during the course of the audit.

In view of the cancelled cheques not attached to the journal entries, we were unable to confirm that the cheques were actually cancelled. This could lead to fraudulent activ ity as they could be presented at the bank at a later date.

Safer control measures should be built in to the system to avoid reprinting of cheque s in the event of power failures or adequate documentation should be made and retained of such instances for future reference.

Compensations were paid on photocopied claims and insufficient supporting documents which could allow for misappropriation and fraudulent acts.

Recommendation

Finance should address the following recommendations:-
- o Improve on current record keeping practices and ensure sufficient and appropriate documentation is maintained and retained;
- o Strengthen the control environment to minimise the risk of misappropriation; and
- o Ensure that all payments are made through original claims and original supporting documentation only.

[Dwamn ntlil! W!tgc.. Com en.t . j

Recommendations by Audit are noted and accepted.

20.4 Losses and Deficiencies Observation

Appendix 1 of the Public Accounts Financial Statement, shows that Losses and Deficiencies amounting to K28,379 were accumulated by the State as at 31 December 2007. AGO observation from the Departmental audits across line Departments indicate that reporting of losses by Departments to the Department of Finance is unsatisfac tory. Unless regular reporting as required by the PF(M) Act is strictly enforced across line departments and agencies, the amounts incurred as losses by the State will continue to be unders tated.

Conclusion

On the whole, in view of the broader network of assets and infrastructure owned, serviced and operated by the National Government throughout the country, the amount of K28,379 is materially understated and will be misleading to the users of the financial statements.

A Treasury Circular will be issued to all Government Agencies reminding them of the requirement under Finance Instructions to report all losses and deficiencies to Treasury within the specified timeframe. As part of its annual work program, Financial Accountability and Inspections Division of Treasury will check to ensure Government Agencies are comply ing with this instruction.

20.5 Internal Audit

From the AGO perspective, the internal audit is an important component of the system of internal controls. Because of some similarities in the nature and scope of activities performed by internal and external auditors, especially in the public sector, there are significant programmes to be achieved if external auditors are able to rely on the work of internal auditors and vice versa.

An effective internal audit program should facilitate external audit to place greater reliance on the work of Internal Audit, thereby making better use of overall audit resources.

Observation

Finance Internal Auditors are currently not following up issues specifically reported in the Public Accounts financial statements. The Finance Internal Audit does not undertake periodic reviews to ensure that bank reconciliations of the bank accounts managed by Finance including Trust accounts, Advances and Drawing accounts are being performed on a timely basis.

There are legislative compliance matters that the Internal Audit should be assessing to provide assurance to management that Finance is complying with the PF(M) Act, Finance Instrnctions and other relevant legislations.

Recommendation

The Secretaries of the Department of Finance and Treasury should conduct a review of the Department of Finance and Treasury Inspections and Internal Audit Branches with a view to effectively utilize the resources available within both Branches.

The number and magnitude of control weaknesses reported by the AGO in recent years should influence the commencement of regular periodic reviews by the internal audit to ensure that bank reconciliations of the bank accounts managed by Finance including Trust accounts, advances and drawing accounts are being performed on a timely basis. In addition, the internal audit should regularly report on the risk and occurrence of legislative non-compliance to the Secretaries.

The Departments of Treasury and Finance have liaised over this matter. The two departments have reached an understanding in principle to refer all allegations regarding external agencies to Treasury's Inspection Division, while resources in the Department of Finance will be focused on internal control issues and investigations.
Ongoing dialog is to continue between the departments to explore other avenues to rationalise and improve activities and more effective utilisation of resources in the respecti ve Departments.

The Division's annual work plan has been developed to address control issues in activities/functions such as Advances, Bank Reconciliation s, Trusts, Revenue (RPM), Procurement, Assets, Workers Compensation, Office Rental and Department Homeownership

Scheme. The plan also incorporates few (2 or 3) Provincial Treasury Offices annually. The division, while in the provinces, will review the effectiveness of District Treasury Roll-out Programs in various districts.

An advisor under the Strongim Gavman Program is now attached to the division to assist in executing the current audit plans.

20.6 Separate Bank Accounts for Non-Bank Trust from CRF Funds Observation

At present, some non-bank Trust accounts and the main account for the Government are operated through a single bank account called the Waigani Public Account that records both the CRF and non-bank Trust Funds. The risk of incorrect posting is increased as the debit to the CRF account can be offset by a credit entry to a non-bank Trust Account. This also creates opportunity for the CRF to be depleted by allowing or facilitating unapproved transactions through these non-bank trust accounts which was the case in Suspense Account No. 2 and the Cash Adjustment Account in previous years.

The Department of Finance indicated that, reconciliations were conducted on a periodical basis to correct this. However, for control purposes, the AGO emphasize that the bank accounts for CRF and non-bank Trust funds are separated for effective control.

The risk of error, misappropriation, fraud or spending in excess of funds available is highly likely to occur especially where bank accounts for the CRF and non-bank Trust funds are not separated.

Recommendation

The AGO recommends that Finance reviews the existing policy in relation to adopting a single bank account for the management of CRF and non-bank Trust accounts, with a view to improve accountability in processing of transactions. Alternatively, some consideration should be given on reducing I closing a number of Trust accounts operated through CRF I Waigani Public Accounts.

Finance agrees that type 6 trust accounts should be closed and transferred to trust accounts with a bank account. This change is in progress for Suspense Account No 2 however PGAS enhancements are required to enable receipting to tJust accounts. For other type 6 trust accounts, a review of the operations and funding for these accounts is required to determine the strategy for transferring these to separate bank accounts.

20.7 Journal Entries Postings in Period 13 Observation
Journal entries posted during the post balance date or period 13 after PGAS was closed aggregated to KI,779,699,460. An amount of Kl,681,724,166 was in respect of Trust accounts. A further amount of K6,425,392 was incorporated in period 13 to account for FMIP

receipts and payments. Included in this amount of Kl,779,699,460 was a jom11al entry for K283,234,129 for correction of a duplicate JE passed on account of Trust accounts.

The audit revealed that:
• Officers approving journal entries do not exercise due care and diligence and as a result a duplicate journal entry for a very high value was processed. Such inappropriate actions cast doubt on the whole process and integrity of the transactions processed.
• The Trust Team does not carry out its functions effectively throughout the year and due to this reason, Kl,681,724,166 worth of journal entries were effected in adjustments after the end of the financial year.

:e Details of the duplicate journal entry are as follows:

No	TNO	DEBIT	CREDIT
		K	K
1	518	185,657,987.29	185,657,987.29
2	519	48,250,791.86	48,250.791.86
3	514	38,739,461.91	38,739,461.91
4	200	3,971,581.02	3,971,581.02
5	527	3,413, 172.00	3,413,172.00
6	526	1,406,563.58	1,406,563.58
7	463	477,901.85	477,901.85
8	463	477,901.65	477,901.65
9	446	413,961.22	413,961.22
10	468	304,217.23	

304.217.23
11
536
90,670.95
90,670.95
12
002
20,018.48
20,018.48
13
222
9,900.00
9,900.00
Total
283,234,129.04
283,23.4.129.04

The final effect of the post balance journal transactions is that there is an increase in expenditure figures between Period 12 and 13. This is largely due to the PGAS and TMS records not being reconciled at the end of each month, with items that make up the discrepancies corrected during Period 13. The issues observed during our audit are noted below:-

• Those line Departments' whose overpayments and underpayments (or savings) are subject to journal adjustments were not aware that the increase/decrease has occurred against their expenditure figures;

• there are risks involved that the transfers may not be correct;

·• such adjustments made without the knowledge of the line department/agencies could facilitate irregular activities;

• Due to the enormous number of (errors) unreconciled differences incurred and not corrected during the year, the length of time taken to make the adjustments at the end of the year especially at period thirteen (13) does cause delays in the preparation of the Public Accounts financial statement.

The narrations of the journal entries were not always accurate and often there was a lack of cross referencing to the original entry (ledger postings).

Conclusion

Inadequate audit trail of transactions made in the various ledgers and insufficient records increase the risk of error, misappropriation or fraud that may not be detected as quickly as possible. And such inadequate audit trail, results in additional resources and time spent in making adjustments.

The controls over Period 13 journal entries including the need for Donors to provide interim financial statements relating to Donor funding, need to be enhanced.
Recommendations

• All journal entries raised to transfer expenditure and receipts should be referred to and properly authorized by the responsible Departments and Agencies (not solely done by Department of Finance without consultation).

• Department of Finance should be monitoring the monthly reconciliation of PGAS to TMS for the line Departments' transactions to ensure that the variations are promptly corrected

• All clearing accounts should be reconciled by Department of Finance each month and outstanding items promptly cleared

• Consideration should be given to encourage Donors to provide expenditure reports on their funding of development projects before the end of the financial year. If this is not practical, interim statements/reports could be provided.

• That the Department of Finance reinforce the policy of proper cross referencing of journals to staff involved in preparing and authorisingjournal entries.

• The accuracy of journal postings should be subject to periodical independent verifications by the Internal Audit and Compliance Branch of the Department of Finance.

Existing resource and capacity restraints limits Finance's ability to more regularly quality review data from National Departments and Provinces. The review is therefore undertaken after the year end by which time PGAS has been closed and rolled over to the new year.
Ideally all adjustments should be done in the PGAS system however as this is not possible TMS is corrected to ensure accuracy of values reported in the Public Accounts. In some cases, correction journals are reversed the following year in TMS and the relevant agency is advised to process a fix up in PGAS in the following year which offsets the reversal journal processed by Finance.

However there are some correction journals such as trust account re-alignment and re? statement which are not reversed and have now become permanent differences between
TMS and PGAS Finance is currently reviewing its practices in regards to these journals.

An analysis has been undertaken of all type 1 accounts which include clearing accounts with a view to rationalise and write off balances if justified. For those which are still required, a process will be introduced to regularly quality review transactions.

For 2009, Accounting Frameworks Division is re-introducing a process to record and agree all monthly input data into TMS from all source areas which include s PGAS data loads, payroll postings and general journals.

To improve the quality of journals, Accounting Frameworks Division will be advising all relevant divisions that from October 2009 all journals must be adequately supported, appropriately authorised and have clear understandable description s as to the purpose of the journal. Accounting Frameworks Division will not accept any sub standard journa ls for processing unless these criteria are met.

To improve the timeliness of donor information Finance is wntmg to the Secretary of National Planning to seek their assistance in seeking the information on a quarterly basis and to ensure more accurate allocation of the expenditure against the correct vote codes and better alignment to the revenue votes.

As journal transactions are controlled and conducted by Department of Finance officers, even through many of the transactions are for other agencies, it is seen that a periodic internal audit review would be warranted. The review by IACD would howe ver usually be included on an annual basis in the work plan. More regular Q&A should be conducted by the relevant operational areas within Department of Finance. There is also the mechanism of independent review by the Finance Audit Committee. If either of these were to identify any irregularities, these could then be referred, as appropriate, to Treasury, FIAD or Finance IACD for investigation.

20.8 Departmental Audits

In drawing conclusions in relation to the Audit Opinion of the Public Accounts, it is necessary to consider the common observations made in the management letters issued by AGO to the various Government Departments audited in respect of 2007 financial year.

The matrix below indicates the observations made in relation to these audits viz·

KEY

Explanations for each of the issues are set out below with the risks associated with each issue together with recommendations.

20.8.1 Bank Reconciliations

Bank reconciliation represents an independent verification by management to ensure that cashbook transactions reconcile to the bank statements. By performing bank reconciliations periodically (monthly) ensures that receipts and payments are accurately processed, cashbook or bank errors are identified, and misappropriation or fraud is detected timely.
During the Departmental audits, significant unreconciled items of material nature were noted, reducing the level of assurance that can be placed on the accuracy of bank balances as follows:

• Bank reconciliations were current in only 3 out of 15 agencies. However, even in those three agencies, significant unreconciled items were carried over for Jong periods of time. One agency had their last reconciliation completed back in 2003.

• Based on the more recent reconciliations in 5 agencies, the difference between the bank balances and the cash book exceeded K124 million. Of that amount, the unpresented cheques comprised of K66 million and stale cheques were in exce ss of K35 million. The amount of cancelled cheques was K327, 200. It was not possible to verify the accuracy of these reconciling items. For example: the unpresented cheque numbers were not listed, stale cheques were not written back and the cancelled cheques were not attached to the journals. Our audit also revealed that in some cases the "cancelled" cheques were later presented at a bank.

• AGO observed that seven (7) agencies which had bank reconciliations compiled, there were no proper segregation of duties, i.e. the reconciling officers either handled cheques or the officers were involved in recording and banking process. The probability of risks of fraud and misappropriation occurring is very high where there is no proper internal control and checking by persons in authority.

• In nine (9) agencies, the reconciliations were not reviewed and certified as correct by a senior officer.

20.8.2 TMS and PGAS Ledgers
The present accounting systems used by Finance and line agencies are not fully integrated into a centralised financial reporting system. There are three sub accou nting systems: PGAS Departmental Accounting System, ALESCO Payroll system, and TMS Department of Finance Financial Management system. As not all departments have their own PGAS accounting systems (self accounting), these departments piggy back to other major systems (eg. posted through the Department of Finance PGAS). The primary reporting system which is used to compile the Public Accounts Financial Statements is the TMS. The integration between the systems is through manual journal entries adjustments.

There is highly likely that the correlation of periodic and final balances on the respective financial accounting systems, PGAS and TMS will not factor correctly if the trend of ignorance to comply with the legal requirement of monthly reconciliations by all concerned accountable Officers. We however, continue to stress the fact that ifthere are any differences

• Controls surrounding management of vehicle fleets were nonexistent. Allocation and responsibility for the vehicles were not documented and identified to officers in possession, nor any review conducted on the current arrangement to ensure that the vehicles do exist.

• In seven agencies, no log books or vehicle history cards were maintained for the government vehicles. Contrary to Motor Traffic Regulation, vehicles with private number plates and tinted glasses were in operation. In many instances fuel consumption was found to be very excessive.

20.8.5 Payroll - Salaries and Wages

Human resource management processes encompass the day to day management and administration of employee entitlements and payroll functions. The salaries and wages costs within the Government Departments represent one of the single largest items of expenditure. On average, direct salaries comprise around 20% of the annual recurrent budget of the State. This represents a significant area of risk and management should ensure that these costs are carefully controlled and monitored and that those responsible for payroll functions have the necessary skills and knowledge to effectively execute their functions.
Given the significance of employee expenses, and the fact that by their nature some employee entitlement calculations can be inherently prone to human error, agencies need to have adequate control mechanisms in place to capture and process employee data and related payments. In addition, key controls should include appropriate approval and review processes.

Common·problem identified across the agencies were:

• Although the payroll is processed centrally by the Information Technology Div ision (ITO) of the Department of Finance for public servants, it is the responsibility of the Departmental Head to ensure its accuracy and completeness. It was observed that there was no payroll reconciliation performed by the HR area throughout 2007 in 17 agencies out of 18. The agencies did not maintain their own ledger records but relied on Department of Finance records. The non-existence of this key control could facilitate fraudulent payroll activities where payments processed outside the system could not be easily detected in the absence of independent records and reconciliation. There were a number of audit reports produced that are available to agencies to monitor payroll and in particular to detect fraudulent activities. These reports are available online to agencies and also provided each fortnight by the Department of Finance. These reports are a key control to effectively monitor payroll activities and to detect fraud.
• The AGO observed that in IO agencies the number of casuals exceeded the staff ceiling (the number of funded positions). Such practice facilitated nepotism and has caused significant budgetary disorders. In the agencies concerned 463 staff were not on the Department of Finance payroll system-Alesco, but were paid through PGAS cheques. These casuals and part time employees were not held against position numbers and no approval was obtained from the Secretary of DPM prior to their engagements. Failure to undertake proper selection process could be a result of biased selections and abuse of appointment processes.

• One of the important aspects of the human resource function is to maintain records that demonstrate compliance with applicable human resource statutory and regulatory requirements, agency policy and agreements with other parties. Up-to-date records in respect to individual employees are vital and should be properly maintained at all t imes. Testing of a sample of 123 salary/ history cards revealed that 11 I or more than 90% of the records were not updated on a regular basis with either recreational lea ve, HDA, sick leave or tax declaration forms/dependents.

• As a general observation, the AGO noted that personnel fi les were not kept in a satisfactory manner. These files were left lying around on the floor area and not in secure environment. There is a risk of loss of payroll or personal information or documents, damage to the files due to fire and water and unauthorised personnel gaining access to payroll and personal information. This could have been the reason for 32 files missing (out of the requested 102, or one third) in the audit of five (5) agencies.

20.8.6 Un-acquitted Advances

With reference to Part 20 of the Financial Management Manual, all advances paid relating to travelling for both overseas and domestic travels are to be recorded in the register of advances to be controlled and managed by the financial delegates. In addition, no second advance is to be made when the first advance is outstanding. Furthermore, the financial delegates should be reviewing the register of advance to make sure that all advances are being acquitted regularly as required. The payment of advances should be used for the purpose paid for.
Advances are not a material amount in the Public Accounts. However, because of the significance of the issues identified, that is the likelihood of control mechanisms being no n existence, management overriding the controls and potential fraudulent activities occurring, the AGO examined in detail the area of advance managemen t and identified the following significant issues:

• In 18 audited agencies unacquitted advances from 2007 amounted to almost K27 million. There was no proper recovery action taken of either reminder letters being sent or salary deductions effected to acquit/recover the outstanding advances. In the same agencies, 481 second advances, without acquittal of the first advance totalling K I ,369,076 were paid to same staff members
• Eight agencies had unacquitted salary/cash advances from 2007 of KI,659,006. It should be noted that there were additional unacquitted cash advances accumulating from previous years. There were many instances identified where officers had resigned the acquittal forms without actually acquitting the advances with supporting docu mentation attached to the acquittal forms to substantiate the usage of the advances. The agencies had no established limit on cash advances payments. In some instances, the amount of the cash advances given to employees exceeded their annual salary.
• The AGO observed the practice of agencies paying significant amounts to the Paymaster as cash advances. These cheques were cashed by the Paymaster and paid to officers of the departments for various purposes. Such practice could lead to fraud as there is no documentation/audit trail such as completing an "order to pay agent" form by the pay master.

• There was no segregation of duties. Each staff member working at the Accounts Section(s) could be filling-in as and when staff member is not available for work.

• Management of the advances is very poor and unsatisfactory and there was no assurance over the completeness of the recorded balances. The AGO identified K48I,704 unrecorded advances in two agencies alone.

20.8.7 Financial Reporting

There was a significant non-compliance by line National Departments who have failed to prepare and submit quarterly reports to Department of Treasury and annual management reports to Department of Personnel Management and Department of Finance.

As required under Section 5 of the PF(M) Act Departmental Heads shall submit a report on financial management quarterly after end of each quarter and an annual report, incl ud ing overall assessment of the Department at end of each fiscal year to the Secretary responsible for financial management.

Sixteen (16) out of 18 audited agencies have not submitted these annual reports to Department of Finance. In addition, as stipulated in Divi sion 4 Section 32 (a) of Public Service (Management) Act, 1995:

"Each Departmental Head shall by 31st March in each year, prepare a report on the attainment of the planned objectives of his Department for the year ending 31st December preceding." It is further elaborated in Public Service General Order 8.12 that the Departmental Head should forward to Secretary, Department of Personnel Management a

report on the work and achievements of his Department in relation to the Corporate and Annual Management Plans."

None of the audited 18 agencies has submitted these reports to DPM.

20.8.8 Budgetary Controls
An effective financial management environment is demonstrated by strong integration of budgeting with the entity's corporate plan, priorities and external accountabilities. Appropriations represent the primary source of revenue for all agencies. The Department's efficient cash management and budgetary controls depend on accurate information on availability and funds requirement, as well as a reliable procedure for tracking variances from its records against Department of Finance's records, in order to ensure that:
• Funds transferred by way of Warrant Authorities agreed with funds recorded at the receiving Department's PGAS ledger.
• Monthly reconciliations of Departmental expenditures and Department of Finance's ledgers are carried out to eliminate any differences and to reconcile with the Public Accounts ledgers.
• That differences noted are communicated with Department of Finance and are promptly dealt with.
• Ensure that funds are spent within the budgetary allocations.

The audits disclosed that controls in agencies relating to the cash flow management and budgetary controls were generally inadequate. Weaknesses noted relate to:

• In 17 out of the 18 agencies audited, no monitoring of expenditure has been undertaken. For example: agencies did not employ a Budget Officer to be responsible for Cash Flow Management and no cash flow statements were prepared on a regular basis to report on significant anticipated shortfalls or surpluses and to provide reliable information to enable the Secretary(ies) to make informed financial decisions. Such lack of monitoring resulted in significant variances of actual spending compared to cash available in all audited agencies, with 7 agencies identified where the expenditure balance exceeded the warrant authority. The above mentioned practices expose the Public Accounts to the risk that fonds could be spent in excess of the appropriation limit, which will result in breaches of the Appropriation Act, the PF(M) Act and the Constitution.

• Incorrectly charged expenditures to Vote items for which funds were not appropriated, either through use of incorrect expenditure codes or through journal entries. Examples observed in audit were Department of Defence, Lands & Physical Planning and Agriculture & Livestock. There were also instances noted of funds being transferred between divisions and functions as at 31 December 2007 which were contrary to the 2006 Appropriation Act for 2007 Budget.

·• On several occasions, agencies did not exercise compliance to Section 27 of the PF(M) Act with regard to management and utilization of unspent funds at year end. Unspent funds were on occasions either transferred to Trust Accounts or cheques were drawn in favour of the Department before the end of the year. Cheques were subsequently

cancelled and journalised in 2008 debiting the bank and crediting different expenditure votes.

20.9 Unrecorded Revenue - Recovery of Student Loans Observation
The Office of the Higher Education has a Committee called the Tertiary Education Student Assistance Scheme (TESAS) Awards Committee which screens the scholarship awards. The Committee has Guidelines that highlights the procedures the Committee follows when screening the awards. TESAS is a loan system where the Government helps to pay part of the school fees for students.

Since the introduction of the TESAS in the 2000 year, no system has been put in place to recoup all the funds disbursed as loans to students. As at 31 December 2007 there were in excess of 7,000 students who had been funded school fees through loans. The nomi nal amount of debt that the State has to recover is K6,592,795. The following issues need to be addressed:-

• There is currently no system developed to administer repayment arrangements of the student loans, resulting in no recovery of the Government's money . Since the year 2000, only one student had repaid the loan.

• There are no incentives offered to students for early repayment of loans (through, for example, discounts).

• There are no measures put in place to preserve the value of the loans. Although these loans are interest free, they should be at least indexed each year to reflect changes in the Consumer Price Index (CPI).

The table below detail the students' loans by education facilities:

No	Institution	No.of Students	Amounts (K)
1	University of Papua New Guinea	3,035	2 ,9 85,239
2	University of Technology	960	837,864
3	Bulolo University College	6	4,041
4	University of Goroka	823	570,622
5	University ofVudal - Rabaul Campus	579	582, 1 52
6	University ofVudal-Popondetta Ca mpus	122	126 ,53 2
7	University of Vudal - Kavieng Campus	11	7,310
8	University of Divine Word	254	

398,742
9
College of Allied Health Science - Madang
2
1,907
10
St. Benedict Teachers College
13
12 849
11
Pacific Adventist University
321
310,903
12
Balob Teachers College
17
13 645
13
Dauli Teachers College
7
8,622
14
Gaulim Teachers College
9
7,582
15
Holy Trinity Teachers College
8
6,200
16
Kabaleo Teachers Colle_ge
20
20,437
17
Madang Teachers College
215
1 93,230
18
PNG Education Institute
27
16,395
19
Sonoma Adventist College
51
52,926
20
Highlands Regional School of Nursing
1
920
21
Lae School of Nursing

		1	1,375
22	Lutheran School of Nursing	35	32,375
23	St Banabas School of Nursing	2	1,850
24	Mendi School of Nursing	1	937
25	Lae Technical College	81	88,597
26	Madang Technical College	1	925
27	Mt Hagen Technical College	9	8,811
28	Port Moresby Technical College	21	20,421
29	Goroka Business College	18	1 7 ,93 8
30	Kokono Business College	35	34,126
31	Port Moresby Business College	55	54, 160
32	NETA (437) PGDE, UOG	300	173,155
	Total	7,040	6,592,795

Conclusion

There is currently no system developed to administer the student loans, resulting in no recovery of the Government's money.

Recommendation

The AGO recommends that Finance commence discussions with the Internal Revenue Commission and the Office of Higher Education and commit to developing a project/ monitoring system for all students who have completed their studies in order to expedite loan recovery.

There have been some initial discussions between Finance and OHE on this matter in regards to investigating options to recoup outstanding loans.

20.10 Assistance to Provincial and Local-level Government

Provincial and Local-level Governments are independent legal entities with authority for managing their financial affairs. In recognising these fiscal responsibilities, Sections 102 and 103 of the Organic Law on Provincial Governments and Local- level Governments require Provincial and Local-level Governments (P&LLG) to keep proper accounting records and have sound internal control systems. The P&LLG are required to manage their financial affairs in accordance with provisions of the Public Finances (Management) Act 1995.

The Department responsible for financial management (i.e. the Department of Finance) has been tasked to establish, develop and commission District Treasury Offices to provide accounting, financial management and support services to assist P&LLGs in providing community services.

The administrative and accounting procedures have been specifically designed through the Finance Management Manual to provide these financial support services.

A District/Provincial Treasury is an accounting organisation established under Section 112 of the Organic Law on Provincial Governments and Local- level Governments located at the district/province area. The District/Provincial Treasurers' functions are to ensure that all financial transactions undertaken by the P&LLG out of public moneys are managed properly. These moneys are to be released strictly in accordance with law and contribute to the effective delivery of services to the community. District Treasurers from time to time may also provide oversight functions such as banking, postal, and other services.

A bank account called the District Treasury Operating Account is used for National and Provincial Government Grants received such as District Support Grants, District Infrastructure Grants, ex-warrants CFCs, and any other fonds for District services. Internally raised revenue and Local-level Government Grants from the National Government are pa id directly into the Local-level

Government operating account.

The Secretary of Finance is tasked to oversee the affairs of these Treasury Offices.

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Observation

The Auditor-General's Office has the responsibility to examine the financial statements and the accounts and records of the P&LLG. For the last several years the AGO has reported and concluded that material errors, uncertainties and lack of adequate records existed and resulted in the overall financial position and management of operations to be very unreliable. As a result, the AGO continued to report inability to form an audit opinion on the P&LLG's financial statements. The situation has not improved in 2007.

Similar to previous years, all of the audited 2007 P&LLG's financial statements contained disclaimer of audit opinions.

Although there were major factors that had contributed to such ineffective financial management processes, it was also the Provincial/District Administr ators' failures to promote measures and responsibilities for transparent and compliance on spending within budget allocations for which, the Department of Finance did not adequately address in their responsibilities through:-

• Providing or ensuring experienced and competent Treasury Offices' personnel are employed and maintained.
• Considerable abuse and diversion of funds allocated to P&LLG towards the needs of the Treasury Offices that went on either undetected or not acted on.
• Lack of coordination and communication between the Treasury Offices' personnel and Provincial and Local-level Government on financial matters.
• Absence of regular monitoring and review by the Department of Finance on the work of the Provincial/District Treasury, together with timely corrective action.
• There is no adequate risk assessment, planning, manpower or funding to undertake internal audits by the Internal Audit Units within the Provincial Government.

Conclusion

The AGO's testing of the controls and examination of P&LLG's financial records in 2007 revealed weaknesses of such magnitude that material errors could have been processed or misappropriation or fraud could have occurred. The Provincial/District Treasury Offices did not meet their operational responsibilities which resulted in declining service delivery to the community and the public in general.

Recommendation

The 19 Provincial Governments and the Bougainville Autonomous Government received development and recurrent funds/appropriations in 2007 of approximately K905 million. This represented 12% of the total State's initial budgeted expenditure for 2007. Considering the significance of the amount, it is crucial that the Department of Finance provides necessary support to the Provincial/District Treasury Offices in ensuring that these Offices exercise proper accountability and prudent financial management when maintaining the accounts and records and the administrative matters of the P&LLG's.

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Providing or ensuring experienced and competent Treasurv Officers personnel are employed and maintained.

Finance is committed to developing the competency of Provincial Treas ury Officers through: employment of staff who have the necessary qualificat ions, development programs which include technical training, enhancing educational knowledge through programs delivered by PNG Institute of Public Administration and the Institute of Business Studies. In five provinces, Finance also has capacity building advisers to mentor and develop the skills of Provincial Treasury officers.

Considerable abuse and diversion of funds allocated to P & LLG towards the needs of the Treasury Offices that went on either undetected or not acted on.

The annual operating costs for Provincial Treasury offices are provided for through Finance' s budget, therefore diversion of funds allocated to Provincial and Local Le vel Government' s (P&LLG) to meet these costs should not occur. Whilst there are t ime s when P&LLG may assist our officers to meet some costs relating to preparati on of Financial Statements and Bank Reconciliations whilst working after hours, this would be sanctioned and approved by the Provincial Administrator. Diversion of P&LLG funds is not possib le as the Chief Accountable Officer who is the Provincial Administrator makes the sole de cision to divert funds and not the Provincial Treasurer or District Treasurer. The Provin cial Treasurer only implements once approval is given.

If there are specific examples of funds being diverted, these should be provided to Finan ce so that appropriate investigations can be under taken and action taken. Finance has no tolerance to such practice and in the past has disciplined and terminated Provincial Treasury staff for abuse of funds.

Lack of co-ordination and communication between the Treasury Offices personnel and Provincial and Local Level Government on financial matters.

Given the financial oversight role played by Provincial Treasury officers, it can be challenging at times for these offices to manage relationships with P&LLG staff. There can be times when Provincial Treasury officers are unfairly criticised by P&LLG, however if concerns are raised by P&LLG on the performance of Provincial Treasury staff, Provincial and District Financial Management (PDFM) Division investigates. PDFM strongly encourages all Provincial Treasury officers to maintain professional communicatio n and working relationships with P&LLG. Additionally as part of the monthly and quarterly reporting requirements by Provincial Treasurers, if PDFM note that financ ia l services are not being delivered in a timely manner, dialogue is undertaken with the Provinci al Tr easurer to understand the issues.

Absence of regular monitoring and review by the department of Finance on the work of the. Provincial and District Treasurv, together with timelv corrective action.

When funding permits, visits to the provinces and districts are undertaken. In the absence of visits, PDFM Division regularly telephone and email Provincial Treasurers

as a means to monitor operations. Due to remoteness and weaknesses in communication infrastructure, dialogue with districts is a challenge. However, Finance is in the process of improving the communication systems with the acquisition of new Vsat systems. The new system will improve voice communication and data transfer effectively from the district directly to Headquarters. It will also assist Provincial Treasuries to report effectively to Headquarters as well.

Monitoring of operations is also undertaken by PDFM through the requirement of Provincial Treasurers to report monthly and quarterly on a range of deliverables. If timelines and standards are not being met, action is taken by PDFM to understand the causes and corrective measures taken.

There is no adequate risk assessment, Planning, manpower or funding to undertake internal audits by the Internal Audit Units within the Provincial Government.

Amendment to Section 9 of the Public Finance Management Act gives power to the Secretary of Finance to establish Internal Audit Units and Audit Committees to help compliance with the Public Finance (Management).

Finance Instruction one (1) of 2009 was issued on 1st July 2009 outlining the process and procedures to establish Internal Audit Unit and Committee s . So far the department has established nine Audit Committees in the National and Provincial departments. Morobe and Eastern Highlands Provinces are the first two provinces to have the Audit Committees established. There are plans in place to cover the seventeen provinces in future.

Further AGO Comments

At the time of writing this response, (October 2009) all 2007 financial statement audits of the 19 Provincial Governments have been completed. Our conclusion was based on the results of those audits.

Additional Information on diversion of funds from P&LLG towards the PTOs has been provided to Department of Finance.

The AGO strongly supports the initiative of establishing Audit Committees in the Provinces. Notwithstanding this, the audit issue relates to planning and execution of the audit programs by the Internal Audits located within the Provincial Administration. Our assessment of the Internal Audit work indicates general lack of any risk assessment done, no Internal Audit annual plans, lack of adequate funding and capability to undertake audit reviews.

APPENDIX 1

_ I OVERVIEW OF THE GOVERNMENT ACCOUNTING SYSTEM, ACCOUNTING PRINCIPLES AND CONCEPTS

1 . Government accounts are maintained on cash basis. Receipts and expenditure are brought to account only when money is actually collected or when a payment is made. Cost of goods and services received in one year is brought to account in the year of payment and not spread over the years during which they may be used. Similarly, if revenue receivable in one year is not actually received in that year, its accou nting will be deferred until it is received.

2. A distinguishing feature of the Government financial system is the concep t of fund entities, which is derived from the fact that the legislature controls public finances. According to the fund entities concept, government revenues and loans accumulate under a fund and withdrawals there-from to meet expenditure are strictly governed by authorisation by Parliament through structured channels. If an obligation incurred during a year is not met during or before the close of the year, it has to be carried forward and met from next year's Parliamentary authorisation, and cannot be met from unspent revenues of the year in which the obligation was incurred. Parliamentary authorizations or appropriations) are annual but there are special dispensations within the concept to allow for revolving fund operations of a quasi-commercial nature, usually under trustee arrangements. Under these arrangements, Parliamentary approp riations , either for start-up assistance in the form of initial working capital or budget subsi dies for operations, are paid into a separate fund and the balances under this fund are carried forward from year to year. Monies raised by such activities which get paid into the fund are subject to vigorous control as normal public expenditure.
:t If an expenditure is incurred on a service in one year and a recovery is made or a refund is received or a cheque is returned not delivered to the payee in relation to tha t expenditure in the subsequent year, the recovery, refund or the value of the cheque banked will be credited to Revenue (Appropriation of Former Years) in the subsequent year's account. Thus, if an airline ticket is purchased in 2006 and if a refund is obtained from the airline company in 2007 because the ticket was not utilised, refund will be credited to Revenue in 2007. Similarly, if salary is overpaid erroneously in one year and is recovered in the next year, the recovery will be credited to Revenue. No attempt shall be made to raise the budgeted allocations by crediting to the expenditure votes, recoup of overpayments, refunds received and other recoveries for services paid for in the previous years.

4. If expenditure is incurred in one year and recovery is made or refund is received or cheque is returned without delivery to the payee in respect of that expenditure within the same year, the recovery, refund or value of cheque banked will be credited to the expenditure vote thereby adding to the availability of funds.

5. No refund of revenue shall be made by charging the revenue. All refunds have to be made charging the expenditure votes for Refunds included under Appropriation Act.

6. Offshore loans received in kind under which international agencies pay suppliers directly for services or goods supplied, by treating them as part of the loan to the Government, must be brought into account both as loans (revenue ledger) and as expenditure.

II FINANCIAL AND MEMORANDUM ACCOUNTS

7. Since Government accounts are on a cash basis it is imperative that subsidiary accounts are maintained to provide a complete view of the assets and liabilities of the Government and are also.kept reconciled to the financial accounts as far as possible. The following are the major memorandum records that are subsidiary to the financial accounts:

(a) Uniform register showing the date of purchase of each item of capital nature (classified under the subcategory 210, 220 and 230 with over Kl ,000 in value and with normal life of more than one year) its cost price, description, distinctive (serial and model) number, date of final disposal and method of disposal.

(b) Debtors' accounts showing the name and address of each deb tor, amount due, of cash, amount received, receipt number and other useful information.

(c) Vendors' accounts showing accounts received from suppliers (or personal claims) and registered for payment, particulars of payments, if not paid - stage at which pending.

(d) Advances Ledger showing payments either charged to votes or to Advances account analysed by name and address of the advance holder, amount, date of advance, when acquitted, refund amount (if any) received, date of final acquittal of an advance.

APPENDIX2

TRUST FUNDS RELEVANT LEGISLATIVE REQUIREMENTS

Public Finance Management ACT

Section 16 Payments into Trust Accounts, states:
(1) There shall be paid to the credit of a Trust Account: -

(a) all moneys appropriated for the purpose of the Account; and

(b) all moneys received from any dealing with any articles purchased or produced, or for work paid for, with moneys standing to the credit of the Account; and

(c) all moneys paid by any person for the purposes of the Account; and

(d) amounts appropriated as Government contribution to a project which is partly funded by an international agency, whether by way of loan or grant.

Section 18 States that "Subject to Subsection (1), transfers of fonds from Consolidated Revenue Fund to Trust Fund are prohibited unless a special transfer is authorized by an Appropriation Act". Section 19 (2) States that "A Departmental Head of a Department responsible for a Trust Account shall ensure the proper management and operation of that account, and Section 19 (4)(c)] shall maintain such records pertaining to the Account as are required by the Departmental Head of the Department responsible for financial managementand shall submit to him within seven days after the end of each month, details of transactions on the account; and (d)shall, at the end of each fiscal year, submit to the Departmental Head of the Department responsible for financial management, a Statement of the account for the preceding year.

Finance Instruction

PART 12- TRUST FUND AND TRUST ACCOUNTS

1. Trust Fund

1.1 The Trust Fund is part of the Public Account according to Section 10 of the Public Finances (Management) Act 1995. All public moneys are payable into either the Trust Fund or the Consolidated Revenue Fund depending on the nature of the receipt.

1.2 The Trust Fund consists of a number of trust accounts established under Section 15 of the Public Finances (Management) Act 1995. The aggregate of the balances in the individual trust accounts constitutes the Trust Fund balance. Public moneys are payable into the Trust Fund only if such payments are within the specific scope of any individual trust account; otherwise such moneys must be paid into the Consolidated Revenue Fund.

(a) Special advantage in opening the trust account
(b) Purposes for which the trust account will be used
(c) Sources of revenue
(d) Specific objects on which moneys from the Account will be spent
(e) Persons (name and designation) authorizing to operate the account.

4.5 If the Department of Treasury and Planning is satisfi ed, a trust instrument will be drawn up in consultation with the originating Department and the State Solicitor and submitted to the Minister for Finance for consideration and approval.

4.6 Departmental Head responsible for a particular Trust Account will submit within seven days after the end of each month, details of transactions of the Trust Account.

5. Banking Arrangements and Rendition of Account

5.1 Normally trust accounts, being part of the Public Accounts, will not be allowed special banking arrangements. Instead, receipts and payments will be accounted for by Provincial and District Treasuries or Department of Treasury and Planning in Port Moresby.

5.2 However, in special cases (such as projects substantially financed by contributio ns from foreign countries or agencies and where the contributors require such a facility or where projects are likely to be converted into statutory authorities after a period), there is no objection to allowing a special banking facility.

5.3 Where a special bank account is to be opened for a trust account, the following requirements should be kept in view:

(a) A bank account may be opened at the Bank of Papua New Guinea or any commercial bank, but no account should be opened without specific prior app roval from the Department of Treasury and Planning.

(b) Implementing agencies should ensure that a Statement of cash accou nt is submitted to the Public Account of the Department of Treasury and Planning for each month not later than seven days after the end of the month; unless a different period is allowed under the trust instrument. The receipts and payments during the period and the closing balance should be accompanied by bank reconciliation statements. This is necessary for incorporation of the trust transactions in the monthly and quarterly statement of Public Accounts compiled by the Department of Treasury and Planning

6. Pavment into Trust Accounts i
The following moneys will be paid into a trust account:

(a) Moneys appropriated for the purpose of the trust account.

(b) Sale proceeds of assets purchased from the trust account and other receipts which are allowed by the trust instrument to be credited to the trust account.

(c) All moneys paid by any person for the purpose of the trust account specifically provided for in the trust instrument.

7. Pa y ments out of Trust Account
Moneys may be paid out of the trust account only:

(a) for the purposes of the trust account or as authorised by a law
(b) if there is sufficient credit balance in the account, and
(c) in accordance with the estimate of receipts and payments submitte d by the departmental head for each fiscal year to the Secretary, Treasury and Planning and as approved by the latter.

8. Trust Accounts Reconciliation

8.1 It is the responsibility of Departmental Heads to ensure that all Trust Accounts under their control are reconciled on a monthly basis with copies sent to Public Accounts Division, Department of Finance and Treasury no later than 14 days of the close of each month.

8.2 Failure to comply with the provisions of the Public Finances (Management) Act 1995 and the conditions of the Trust Instrument may result in actions being taken as stated below.

9. Moneys at Credit of Trust Account not to Lapse

Moneys standing to the credit of a Trust Account at the end of a fiscal year shall not lapse at the end of that fiscal year and will be carried forward to the next year.

10. Management of Trust Accounts

As a general rule, where a trust account has been established to meet the specifi c needs of a Department, the Head of that Department is res ponsible to ensure proper management and operation of that account in accordance with Section 19 of the Public Finances (Management) Act 1995.
n Suspension of Trust Accounts
The Secretary for Finance and Treasury at his discretion under Section 19(5) of the Public Finances (Management) Act 1995 may:

Suspend the operation of a Trust Account where the provisions of the Public Finances (Management) Act 1995 are not complied with, or

• Take over the responsibility for the operation of that Account, or

Close the operation of the Account where there has been no attempt made to reconcile the Account.

APPENDIX3

ACKNOWLEDGMENT

I would like to acknowledge the professionalism and commitment of my staff in undertaking the audit work that is reflected in this report. Their efforts have ensured the financial statement audit work program is on track and enabled preparing this report in a short period of time.

The co-operation and the assistance rendered by all Heads of Departments and their staff is also acknowledged.

Finally, I would also like to thank the Chairman of the Parliamentary Public Accounts Committee and his staff for their continued interest and support for my office.

SIGNED AT WAIGNAI THIS TWENTY SECOND DAY OF FEBRUARY, YEAR TWO THOUSAND AND TEN

GEORGE W SULLIMANN
Auditor-General

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SCHEDULE THREE

FJCNANCIAl FRAMEWORK REVIEW WORKING PAPERS 2011.

DEPARTMENT OF FINANCE

FINANCIAL FRAMEWORK REVIEW

Discussion Paper 4: Accountability and Controls - Finance Minister & Treasurer's Responsibilities and powers

Description:

There is lack of clarity about the Finance Minister and Treasurer's roles and powers with regards to a range of activities not adequately described in the current definition. Confusion also exists as to what responsibilities come under which of these two Ministries - Finance & Treasury.

Current Situation:

The current definitions at Section 3 of PFMA:

,3 RESONSIBILITIES OF THE MINISTER

(1) The Minister is responsible for -

(a) the supetvision of the finances of the State so as to ensure that a full accounting is made to the Parliament of all transactions involving public moneys; and

(b) the supetvision of the finances of public bodies; and

(c) the formulation of the National Budget and overseeing its implementation on behalf of the National Government.

(2) As soon as practicable after the end of the first, second and third quarters of each fiscal yea the Minister shall publish in the National Gazette a summarized statement of the receipts and expenditure of the Public Account during the fiscal year up to the end of that quarter.

(3) As soon as practicable after the end of each fiscal yea the Minster shall caused to be prepared a detailed statement of the receipts and expenditure of the Public Account during the fiscal yea and shall send it to the Auditor-General.

3. RESPONSIBILITIES AND POWERS OF THE FINANCE MINISTER Proposed Changes:

(1) The Finance Minister is responsible for -

(a) overseeing the finances of the State so as to ensure that a full accounting is made to the Parliament of all transactions involving public resources;

(b) providing directions and guidelines regarding the management of public resources by public bodies;

(c) the reporting of the public accounts of Papua New Guinea;

(d) accounting to the Parliament for the performance and financial management of Statutory Authorities;

(e) establishing controls and rules around state tenders and contracts; and

(f) administering this Act

(2) As soon as practicable after the end of the first, second and third quarters of each fiscal year, the Minister shall publish in the National Gazette a summarised statement of the receipts and

expenditure of the Public Account during the fiscal year up to the end of that quarter.

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

(4) The Finance Minister may require Departmental Heads to submit additional financial reports and records on such matters and at such intervals as he determines.

(5) The responsibility of Finance Minister under this Section is not derogated or reduced by reason of any delegation of functions by him to another person.

(6) The Finance Minister in fulfilling his/her roles and responsibilities must comply with this Act and any other laws.

[New Section to be inserted]

4. RESPONSIBILITIES OF THE TREASURER

(1) The Treasurer is responsible for -
(a) the formulation of the National Budget and overseeing its implementation on behalf of the National Government;
(b) implementing budget controls and reporting matters relating to the National Budget;
(c) monitoring and reporting on national economic trends;
(d) developing and implementing strategies to promote economic and financial transparency to achieve a stable macroeconomic environment;
(e) developing and implementing strategies and policies for the management of revenues and expenditures; and
(f) managing investments of public accounts and state loans.

(2) The Treasurer may require Departmental Heads to submit reports on matters relating to the areas of responsibility described in Section 4(1) at such intervals as he determines.

(3) The responsibility of the Treasurer under this Section is not derogated or reduced by reason of any delegation of functions by him to another person.

(4) The Treasurer in fulfilling his/her roles and responsibilities must comply with this Act and any other laws.

Rationale for Change:
The roles and responsibilities for the Finance Minister and Treasurer need to be clearly and separately spelt out in order to dispel the considerable confusion that exists in agencies around which of the two Ministers (Finance & Treasury) is responsible for various issues.

The current version of the PFMA contains the roles and responsibilities depicting the time when the Ministry of Finance and Treasury were once combined. Now that the two Ministries are separate, the roles and responsibilities need to be separated also.

Currently, there is no provision requiring the Ministers to comply with the PFMA in discharging their ministerial duties. A provision needs to be created to establish obligation for the Ministers which will guide them to conduct themselves within the confinement of the PFMA and any other law.

Consultation:
Initial consultation has occurred with relevant senior officials in Treasury and Finance.

Possible Risks:
The proposed changes might require a minor policy decision as it is likely to attract political involvement. However, the changes might not be controversial as they are only intended to establish a clear understanding about the separate existence of the two Ministries. As such the changes have a fair chance of being agreed to by the Parliament.

Financial Implications:
No financial implications would be expected for this change.

Action:
Depending on the outcome of the Committee's deliberation, the Review Team can do more work on this or request the State Solicitor for legal clearance to commence drafting based on the proposed changes above.

Authority Required:
The Working Group needs to agree on the need for change and the drafting of the proposed changes.

Further Work:
The drafting of any Ministerial Determinations need to be consistent with the roles and responsibilities outlined in the PFMA.

Definitions of 'Finance Minister' and 'Treasurer' will need to be agreed and added to Section 2 of the PFMA.

DEPARTMENT OF FINANCE

FINANCIAL FRAMEWORK REVIEW

Discussion Paper 3; Accountability and Controls - Improving Definitions in the PFMA

Description;
The purpose of this paper is to clarify and improve the wording of current definitions in the PFMA. This paper also proposes new definitions for inclusion in the PFMA.

3.1. "Accounts and Records" Current Situation:
"accounts andrecords" include any accounts/ deeds/ writings and documents/ and other records of information/ whether compile recorded or stored by microfilm or electronic process or otherwise/·

(PFMA & Audit Act 1989)

Proposed Definition:

''accounts andrecords// include any receipts/ deeds/ stat ement/s writings / images/ recording documents and other records of information whether compile recorded or stored on pape0 by microfilm/ by electronic process or otherwise,
3.2 "The State" Current Situation
A definition of the word "State" does not currently exist in the PFMA.

Proposed Definition;

"State// means the Independent State of Papua New Guinea/ as described in the Constitution of the Independent State of Papua New Guinea/ and made up of the National Parliamen the National Executive Council and the National Judicial System.

3.3 "Head of State" Current Situation
A definition of "Head of State" does not currently exist in the PFMA.

Proposed Definition:

"Head of State'' means the Governor-General appointed under the Constitution of the Independent

State of Papua New Guinea, who exercises andperforms the privJ/ege power functions, duties and responsibilities of Her Majesty the Queen

3.4 "Public Debt" Current Situation:
A definition of "Public debt" does not currently exist in the PFMA.

Proposed Definition:

"Public debt'' means all liabilities of the State in respect of the repayment of moneys borrowed in accordance with or as authorised by an Act of the Parliament.

This includes moneys borrowed by the State from commercial public and private lenders both offshore and in-country.

3.5 "Debt owed to the State" Current Situation:
A definition of "Debt owed to the State'' does not currently exist in the PFMA.

Proposed Definition:

"Debt owed to the State" means all amounts owing to the State as a result of an agreement, a transaction or an Act of the Parliament

This includes amounts owing in respect of moneys loaned or advanced to commercial public andprivate borrowers from both offshore and in-country. It also includes amounts owing in respect of moneys overpaid to employees or entitlement recipients.

3.6 ''Finance Minister" Current Situation:
A definition of "Finance Minister" does not currently exist in the PFMA.

Proposed Definition:

"Finance Minister" means the Minister who administers this Act.

3.7 "Treasurer" Current Situation:

A definition of "Treasurer" does not currently exist in the PFMA.

Proposed Definition:

"Treasurer" means the Minister responsible for the formulation and oversight of the National Budget on behalf of the National Government.

Rationale for Change:

Some definitions in the PFMA are currently inadequate, unclear or inconsistent with other legislation. In addition, there are new definitions that need to be added to the PFMA.

The proposed definitions should be clear and understandable for all readers and users of the PFMA.

Consultation:

Nil.

Possible Risks:

The proposed changes are technical in nature and do not require a policy decision. Given that these changes are technical, the risks are small and the changes are likely to be agreed to by the working committee and the Parliament.

Financial Implications:

No financial implications are expected for this change.

Action:

If agreed to by the Committee, the Review Secretariat Team will request legal clearance or

opinion from State Solicitor that the First Legislative Council commences drafting based on the proposed definitions above. There does not appear to be a requirement for further consultation at this stage.

Authority Required:

The Working Group needs to agree on the need for change and the proposed draft wording on the new definitions.

Further Work

There is no further work to be done at this stage.

Discussion Paper 5: Accountability and Controls - Finance and Treasury Departmental Heads Responsibilities and Powers

Description:

There is lack of clarity about the Treasury & Finance Departmental Heads' responsibilities and powers with regards to a range of activities not adequately described in the current definition. Hence, agencies are confused as to whom to approach to deal with financial issues confronting them.

Current Situation:
The current definitions at Section 4 of PFMA:
4. RESPONSIBILITIES OF THE DEPARTMENTAL HEAD OF THE DEPARTMENT RESPONSIBLE FOR FINANCIAL MANAGEMENT.
J, The Departmental Head of the Department responsible for financial management has control and direction of all matters relating to the management of the financial affairs of the State, subject to certain directions given to him by the Minister.
2. In the implementation of the functions specified in Subsection (1), the Departmental Head of the Department responsible for financial management may consult with the Departmental Heads of the Department of the Prime Minister, the Department responsible for planning matters and the Department responsible for personnel management.
3. The Departmental Head of the Department responsible for financial management may require Departmental Heads to submit report on such matters and at such intervals as he determines.
4. A Departmental Head who fails to submit a financial report when required to do so under Subsection (3) is guilty of an offence under Section 112.

Proposed Changes:
4. RESPONSIBILITIES AND POWERS OF THE FINANCE DEPARTMENTAL HEAD

(1) The Finance Departmental Head is responsible for undertaking functions that assist the Finance Minister in the implementation of his/ her responsibliities under Section 3, consistent with this Act and subject to specific directions given to him/her by the Finance Minister.

(2) The Finance Departmental Head has control and direction of all matters relating to the management of the financial affairs of the State and all public bodies, consistent with this Act and subject to specific directions given to him/ her by the Finance Minister.

(3) The Finance Departmental Head may require Departmental Heads to submit financial reports on such matters and at such intervals as he/ she determines.

(4) The Finance Departmental Head may direct full and free access at all reasonable times to all accounts and records of public bodies that relate, directly or indirectly, to-
a. the collection, receipt, management, expenditure or issue of public money;
b. the purchase, receipt, management, custody, disposal, issue or use of public property;
and to inspect and inquire into and call for any information arising from those accounts and records.

(5) The Finance Departmental Head may direct the establishment and operation of internal audit units and audit committees in public bodies or other entities that receive public money and are subjected to be audited by the Auditor-General. Specifically, he/she may direct-
a. the laying out of the functions and the responsibilities of the Internal Audit Unit and the Audit Committee in accordance with any Financial Instruction issued under Section 117;
b. a Departmental Head to ensure that Internal Audit Units and Audit Committees are effectively functioning; and

c. a Departmental Head to implement, comply with or action the findings and recommendations of the Internal Audit Unit or Audit Committee.

(6) In the implementation of the responsibilities specified in Subsection (1) and (2), the Finance Departmental Head may consult with the Auditor-General and the Departmental Heads of the Departments of the Prime Minister, Treasury, National Planning and Monitoring, and Personnel Management.

(7) The Finance Departmental Head may, where he/she has reason to believe that an official has been or may have been in breach of this Act or the Organic Law on Provincial Governments and Local-level Governments restrict or suspend that official from all duties and responsibilities.

(8) A Departmental Head who fails to submit a financial report when required to do so under Subsection (3), or fails to comply with a direction under Subsection (4) or (5), is guilty of an offence under Section 112 and may be subject to disciplinary action as decided by the Finance Departmental Head.

(9) The responsibility of the Finance Departmental Head under this Section is not derogated or reduced by reason of any delegation of functions by him/her to another person.

(10) The Finance Departmental Head in fulfilling his/her responsibilities must comply with this Act and any other laws.

[New Section to be inserted]

5. RESPONSIBILITIES AND POWERS OF THE TREASURY DEPARTMENTAL HEAD

1. The Treasury Departmental Head is responsible for undertaking functions that assist the Treasurer in the implementation of his/her responsibilities under Section 4, consistent with this Act and subject to specific directions given to him/her by the Treasurer.
2. The Treasury Departmental Head has control and direction of all matters relating to the formulation and implementation of the National Budget, consistent with this Act and subject to specific directions given to him/her by the Treasurer.

3. The Treasury Departmental Head may require Depart mental Heads to submit reports on budget and economic matters, at such intervals as he/ she determines.

4. The responsibility of the Treasury Departmental Head under this Section is not derogated or reduced by reason of any delegation of functions by him/ her to another person.

5. The Treasury Departmental Head in fulfilling his/her responsibilities must comply with this Act and any other laws.

Rationale for Change:

The key roles and responsibilities of the Finance and Treasury Departmental Heads need to be well distinguished to clear the confusion that continues to exist in agencies around which of the two Departmental Heads (Finance & Treasury) is responsible for various issues. This will guide other agencies and the public in approaching the right Departmental Head to get their problems solved, which will in turn minimise correspondence and requests being incorrectly addressed.

The title as given (departmental head of the department responsible for financial management) is lengthy and sometimes causes confusion so it needs to be shortened. Separate titles are also required to distinguish between the two Depart mental Heads.

The current version of the PFMA contains the roles and responsibilities depicting the time when the Ministry of Finance and Treasury were once combined. Now that the two Ministries are separate portfolios, the roles and responsibilities for the two Departmental Heads need to be separated also.

Currently, there is no provision requiring the Departmental Heads to comply with the PFMA in fulfilling their responsibilities. A provision needs to be created to establish obligation for the Departmental Heads which will guide them to discharge their duties within the confinement of the PFMA and any other laws.

Consultation:
Initial consultation occurred with senior Treasury and Finance officers.

Possible Risks:
The proposed changes might require a minor policy decision as they may attract political attention. However, the changes might not be controversial as they are only intended to instil a clear understanding and to promote accountability. As such the changes have a fair chance of being agreed to by the Parliament.

Fonancial Implications:
It is envisaged that there would be no financial implication for the proposed   changes.

Action:
Depending on the outcome of the Committee's deliberation, the Review Secretariat Team can do more work on this or request that the State Solicitor commence draft ing based on the proposed changes above.

Authority Required:
The Working Group needs to agree on the need for change and the drafting on the proposed changes.

Further Work:

Definitions of 'Finance Departmental Head' and 'Treasury Departmental Head' will need to be agreed and added to Section 2 of the PFMA.

DEPARTMENT OF FINANCE

FINANCIAL FRAMEWORK REVIEW WORKING GROUP

Meeting No. 05 /11: Tuesday 01 March 2011

Venue: Lamana Hotel Conference Room

Agenda

Chair: Deputy Secretary- Steven Gibson

Item	Time	Activity	Facilitator
1.	9. 00 am	Welcome/Introduction	Deputy Gibson
2.	9.10 - 9.30	Matters arising from the last meeting	Deputy Gibson
3.	9.30 -11.20	Issues Papers on Accountability & Control	-Kerry Markoulli SGP Adv. -Stanley Yekep A/AS
4.	:ll.1.20 - 12.00	Update List on Public Bodies	Kiren Andrew -Treasury
s.	1 2 . 00 - 1.00	Continue on Summary Submission	
6.		AOB	
	1:00pm	Meeting close and late Lunch	

FAS Jacob Yafai

Note: This is an important meeting and we urge all members to attend.

Call Mr Stanley Yekep, A/Assistant Secretary or Joseph Gora, Principal Accountant Accounting Frameworks Branch on 328 8583/328 8606 respectively for issues and inquiries.

DEPARTMENT OF FINANCE

FINANCIAL FRAMEWORK REVIEW

Discussion Paper 6: Accountability and Controls – Clarifying the Responsibilities and Powers of Departmental Heads

Description:

The wording relating to "Responsibilities of Heads of Departments" s5 needs to be clear and understandable for the users of the Public Finance Management Act 1995 (PFMA).

Current Situation

PFMA Section 5– RESPONSIBILITIES OF HEADS OF DEPARTMENTS.

(1) Each Departmental Head is responsible for ensuring that in relation to the Department of which

he is Head -
{a) the provisions of this Act are complied with; and
(b) all accounts and records relating to the functions and operations of the Department are properly maintained; and
(c) all necessary precautions are taken to safeguard the collection and custody of public moneys; and
(d) all expenditure is properly authorized and applied to the purposes for which it is appropriated; and
{e) there is no over commitment of funds and a review is undertaken each month to ensure that there is no over-expenditure or over-commitment and the collection of public moneys is according to approved plans and estimates; and
(f) all expenditure is incurred with due regard to economy, efficiency and effectiveness and the avoidance of waste; and
(g) all necessary precautions are taken to safeguard stores and other property of the State; and
{h) any fee,. charge or tax imposed by legislation for which the Department is responsible is collected promptly and to the fullest extent; and
(i) any fee,. charge or tax imposed by legislation for which the Department is responsible is reviewed at least once in each year in order to establish -
(i) whether the level of such fee,. charge or tax is adequate; and
(ii) whether such fee,. charge or tax should be increased and,. if so,. by what amount and that financial reports on reviews and such other matters are submitted to the Departmental Head of the Department responsible for financial management in the format specified in the Financial Instructions; and

(J) information required by the Public Accounts Committee is submitted to that Committee accurately and promptly; and
(k) advice on financial management is given to the Minister political ly responsible for the Department; and
(/) proper estimates in respect of collection and expenditure of public moneys are prepared in a form specified in the Financial Instructions; and
(m) as soon as practicable after the end of each quarter of each fiscal year he submits to the Departmental Head of the Department responsible for financial management a report on financial management in a form specified in the FinancialInstrucaon£

(2) The responsibility of a Departmental Head under Subsection (1) is not derogated or reduced by reason of any delegation of functions by him to another person.

(3) A Departmental Head is liable to imposition of surcharge under Section 102 and levy of penalty for an offence under Section 112 in addition to disciplinary action under the Public Service General Orders for improper discharge of responsibility under Subsection (1).

Proposed Definition and Changes

RESPONSIBILITIES OF DEPARTMENTAL HEADS

(1) A Departmental Head must ensure that they establish internal controls to provide for the efficient, effective, economical and ethical use of the public resources for which they are responsible.

This includes-
-establishing an Internal Audit Unit and Audit Committee, in accordance with any Finance Instructions issued under Section 117.

(2) A Departmental Head must develop and implement all necessary actions to ensure the active collection, proper management and appropriate expenditure of public money. This includes ensuring that-
(a)the collection and expenditure of public money is in accordance with approved plans and estimates;
(b)all expenditure is incurred with due regard to proper process, economy, efficiency, effectiveness, ethical use and consistent with government priorities;
(c) any fee, charge, levy or tax imposed by legislation or through contract is collected promptly and to the fullest extent;
(d) at least once in each year any fee, charge, levy or tax for which the public body is responsible is reviewed to determine whether:
(i) the level of such fee, charge, levy or tax is appropriate; and
(ii) and such fee, charge ,levy or tax should be increased and, if so, by what amount;
(e)all public debts for which the public body is responsible are active ly managed, collected promptly and to the fullest extent;

(f) a review is undertaken each month to ensure that thereis no over-expenditure or over-commitment of public money; and
(g) all expenditure is properly authorised and applied to the purposes for which it is appropriated;

(3) A Departmental Head is responsible for ensuring that, in relation to the public body for which he or she is responsible, all necessary actions are taken to ensure the proper management of public property.

(4) A Departmental Head is responsible for ensuring all accounts and records relating to the functions and operations of the public body are properly maintained, and reports are provided, consistent with this Act, the Financial Management Manual and any Finance Instructions issued under Section 117. This includes-

(a) promptly providing accurate information required by the Public Accounts Committee;
(b) submitting financial reports on reviews and such other matters to the Finance Departmental Head in the format specified in the Financial Instructions;
(c) as soon as practicable after the end of each quarter of each fiscal year, submitting to the Finance Departmental Head a report on financial management in a form specified in the Financial I nstructions; and
(d) providing regular bank reconciliations as required by the Finance I nstructions.

(5) In fulfilling their responsibilities under this Section a Departmental Head must comply with this Act, the Regulations, Finance Instructions, the Financial Management Manual and any other law.

(6) The responsibility of a Departmental Head under this Section is not derogated or reduced by reason of any delegation of functions by the Departmental Head to another person.

(7) A Departmental Head is liable for imposition of surcharge under Section 102 and levy of penalty for an offence under Section 112 in addition to disciplinary action under the Public Service General Orders for improper discharge of responsibility under this Section.

Rationale for Change
The wording relating to "Responsibilities of Heads of Departments" s5 needs to be clarified in order to make the responsibilities of Departmental Heads- clear and understandable for the PFMA. The Proposed changes reorganise the current responsibilities of Departmental Heads into logical groupings relating to internal controls, public money, public property and accounts and records. The new wordings should assist the public, the Parliament and government officials to clearly identify and understand the responsibilities of Departmental Heads.

Consultation:
Consulted senior Officers from Finance and Treasury
Possible Risks:

The proposed changes are technical in nature and do not require policy decision. Since the risks are small, the change is likely to be agreed to by the Working Committee and the Parliament.

Financial Implications:
No financial implications are expected for this change.

Action:
!f agreed to by the Committee, the Review Team can request that the First Legislative Council commence drafting based on the proposed wording above. There does not appear to be a requirement for further consultation at this stage.

Authority Required:
The Working Group needs to agree on the need for change and the proposed draft wording above.

Further Work

The penalties already ex1st under this Section. However, it appears that enforcement of penalties is an issue and needs to be considered further.

DEPARTMENT OF FINANCE

FINANCIAL FRAMEWORK REVIEW

Discussion Paper 7 -Accountability and Controls- Improving Delegation in the PFMA

Description:

The current prov1s1on on delegation of powers from Minister to Finance Departmental Head, and Finance Departmental Head to other Departmental Heads, and Departmental Heads to other persons (sS and s26 and s110), do not set out or have no clear delegation requirements. Hence, there is a need to enact clear requirements in the new frameworks to include clear delegation requirement.

Current Practice:

Section 26. DELEGATION

(1) The Minister may, by instrument under his hand, delegate to the Departmental Head of the Department responsible for financial management all or any of his powers under Section 24.

(2) Where the Minister has exercised his power of delegation under Subsection (1), the Departmental Head of the Department responsible for financial management may, by written instrument, delegate to a Departmental Head or to Departmental Heads all or any of the powers delegated to him under Subsection (1) (other than the power of sub-delegation).

(4) A delegation under Subsection (1) or (2) may be made subject to such conditions as the delegator thinks fit.

Section 110. DELEGATION

A Departmental Head may, by instrument, delegate to a person all or any of his powers and functions under this Act (other than this power of delegation).

Proposed Changes:

Section 26. DELEGATION

(1) The Finance Minister may, by written instrument, delegate to the Finance Departmental Head some, any or all of his powers under this Act. In delegating his powers, he may specify any limits and/or conditions on the exercise of those powers or performance of those functions.

(2) The Finance Departmental Head may, by written instrument, delegate any of the following powers and functions to one or more Departmental Heads:
(a) a power or function that has been delegated to the Finance Depart mental Head by the Finance Minister (other than the power of delegation); or
(b) the Finance Departmental Head's power or functions under this Act (other than the power of delegation)

(3) If the Finance Departmental Heads is subject to any limits or conditions in relation to the exercise of a power, or a performance of a function, he must impose those limits and conditions when delegating that power or function under Subsection 2(a).

(4) If the FInance Departmental Head delegates a power or function to one or more Departmental Heads and it is not a power or function that has been delegated to him under Subsection (1), he may specify any limits and/ or conditions on the exercise of those powers or performance of those functions.

(5) A Departmental Head may, by written instrument, delegate to any of the following officials, some, any or all of his powers or functions (other than the power of delegation) under this Act.

In delegating his powers, he may specify any limits and/ or conditions on the exercise of those powers or performance of those functions.

(6) In exercising powers or performing functions under a delegation, an official must comply with any limits and/or conditions contained in that delegation.

(7) The delegation of powers under subsection (1), (2) (3), (4), and (5), the written instrument must be gazetted in the government gazettal.

Rationale fo r Chan ge

The current delegation of power under Section 26 relates only to Finance Minister delegating his power to re-allocate unexpended appropriations. It does not provide for, or clarifying the requirements in delegating powers from the Finance Minister to Finance Departmental Head and from Finance Departmental Head to other Departmental Heads.

Section 110 provides for a Departmental Head to delegate all or any of the powers and functions under the PFMA. Currently there are no requirements surrounding the delegation of these powers.

The proposed changes group all delegation provisions together in Part II of the PFMA and clarifying the requirements relating to delegation at all levels. The changes clearly show which powers and functions can be delegated and include the requirement that all officials must comply with any limits and conditions when exercising powers or performing functions under a delegation.

The current practice is that in all delegation the written instrument is gazetted in the government gazette but is not stated in the Act, therefore we though Subsection 7 should be inserted to make the current practise to become legal for the purpose of this act.

Consultation:
Senior officers from the Department of Finance consulted arid gazed the ir views.

Possible Risks:
The proposed change are considered technical and do not require a policy decision. Given that these changes are technical, the risks are small, as the change is likel y to be agreed to by the Working Committee and the Parliament.

Financial Implications:
No financial implications are expected for this change.

Action:
If the change is agreed by Working Group Committee, the Review Team can request that the State Solicitor commence drafting instructions based on the proposed change above.

Authority Required:
The Working Group needs to agree on the need for change and the proposed draft working on the proposed changes.

Further Work:
For transparency purposes it would be of benefit to require that the written delegation instrument be published in the National Gazette. This will require a policy decision.

The limit of delegation powers in monetary values applicable to different level of officers, such as Deputy Secretary, First Assistant Secretary, Assistant Secretary etc will be detailed in the Finance Management Manual, and or Finance Instruction.

The current s26 of Part V of PFMA that talks about Delegation will be moved to Part II of the PFMA.
Further sllO of Part XII will be removed since it is a repetition of s26 that talks about delegation of powers by Departmental Head.

August Finalise drafting instructions for PFMA changes to management of resources and 2011risks reauirements
Host third 2010 Finance Forum and inform Participants of Review outcomes Commence further review of Finance Instructions, qiven PFMA chanqes Continue redraftinq of Financial Manaqement Manual
Secretarv to write to external agencies providinq feedback on the Rev iew Review proqress - adjust project plans, and inform senior manaaement
PHASE III - APPROVALS
Sept 2011 Seek Secretarv's aoreement to overall changes to PFMA
Continue further review of Finance Instructions qiven PFMA chanaes Continue redraftina of Financial Manaaement Manual
Host Working Group meeting on NEC process and redrafting of Financial Management Manual Review oroaress - adjust project plans, and inform senior management
Oct2011 Continue redraftino of Financial Management Manual Seek Minister's aareement to overall chanqes to PFMA
Seek feedback on redrafting of Financial Management Manual Continue further review of Finance Instructions, given PFMA chanqes Review proaress - adiust oroject plans, and inform senior management
Nov 2011 Continue redraftina of Finance Instructions . .
Seek Minister's aareement to NEC submission
Seek stakeholder feedback on redrafting of Financial Management Manual Seek NEC aareement to PFMA changes
Review proqress - adiust oroi ect plans, and inform senior management
PHASE IV - POST REVIEW
Dec 2011 to Develop post-Review communications strategy, ongoing review procedures and Jan 2012 prioritise further review oriorities
Communicate chanaes to internal stakeholders Communicate chanaes to Working Group Continue redrafting of Financial Management Manual incorporat ing stakeholder feedback
Review proqress - adiust project plans, and inform senior manaqement
Feb 2012 Commence implementation of post-Review communications strategy (ie: plan printina and dissemination of new guidance etc)
Finalise redraftin a of Finance Instructions
Continue redrafting of Financial Management Manual incorporating stakeh olde r feedback
Host Working Group meeting to discuss post-Review communication strategy, further oroiects, onaoina review mechanisms

March 20 11 Continue Review of PFMA - manaqement of resources and risks
Host fourth Workinq Group Meetinq on manaqement of resources and risks Finalise draftina instructions for PFMA chanqes on accountability and control
Continue review of Financial Management Manual
Commence drafting instructions for PFMA changes to information and reporting - reauirements
Meet with State Solicitor, Treasury and Auditor-general 's Office about information and reportinq draftina instructions
Review proqress - adiust oroiect plans, and inform senior management
April 201 1 Continue Review of PFMA - management of resources and risks Draft Issues Paoer for Workinq Group on procurement issues Continue review of Financial Manaqement Manual
Continue drafting instructions for PFMA changes to information and report ing reauirements
Review proaress - adiust project plans, and inform senior manaaement
May 20 1 1 Continue Review of PFMA - management of resources and risks
Host second 2010 Finance Forum and inform participants of Review oroaress Meet with Central Supply and Tenders Board, Auditor-General and Treasury on procurementissues
Host fifth Workinq Group Meetina on procurement issues Continue review of Financial Manaaement Manual
Continue redraftina of Financial Manaqement Manual - Finalise drafting instructions for PFMA changes on information and report ing requirements
Draft recommendations on procurement issues
Review proqress - adjust oroiect plans, and inform senior manaqement
June 20 11 Finalise Review of PFMA - manaqement of resources and risks
Develop draft recommendations on resources and risks, includinq procurement Meet with internal stakeholders on draft management of resources and risks recommendations
Meet with Treasury, Auditor-General and Central Supply and Tenders Board on draft manaqement of resources and risks recommendations
Commence further internal stakeholder consultation on proposed changes Continue review of Financial Management Manual
Draft Issues Paper for Working Group on overall chances Commence review on overall consistency and lanauaae in PFMA
Review oroaress - adiust project plans, and inform senior manaaement
July 20:n.1 Finalise recommendations on management of resources and risks
Update Secretary on draft manaqement of resources and risks recommendati ons Update Minister on draft management of resources and risks recommendations
Commence redra ftinq of Financial Management Manual ,.
Host sixth Workina Group Meetinq on consistency and overall chances
Commence drafting instructions for PFMA changes to management of resources and risks requirements
Meet with State Solicitor on drafting instructions on management of resources and risks requirements
Review progress - adjust project plans, and inform senior management

,

June 2010 Review and report on proiect performance
Seek Minister's aqreement for Review framework Communicate the Review framework and project plan Deleqate proiect activities Complete initial Review of Finance Instructions
Finalise Issues Paper for Workinq Group on chanqes to definitions in PFMA
Review remaininq Instructions to ensure consistency with PFMA and new template Continue capacity buildinq activities for Review Team
Review proqress - adjust proiect plans, and inform senio r manaqement
July 2010 Commence review of PFMA - accountability and control requirements Continue internal stakeholder consultation
Draft first Papers for Workinq Group
Revoke outdated and invalid Finance Instructions
Host first Workinq Group meetinq on Review structure and definitions in PFMA Host workshop with Financial Controllers in major aqencies
Continue capacity buildinq activities for Review Team
Continue initial external stakeholder consultation - Independent Public Business Corporation, Public Service Commission, Department of Personnel Manaaement. Present an overview of the Review at the Provincial Treasurer's Conference Continue review of remaining Finance Instructions to ensure consistency with PFMA and new template
Review proqress - adjust project plans, and inform senior manaqement
PHASE II: ANALYSIS AND RECOMMENDATIONS
Aug 2010 Continue review of PFMA - accountabilitv and control requirements
Finalise review of remaining Finance Instructions to ensure currency, consistency with PFMA and to use new template
Update and seek stakeholder feedback on new Finance Instructions Draft recommendations on chanqes to definitions in PFMA
Host second 2010 Finance Forum and inform participants of Review proqress Continue initial external stakeholder consultation - Department of Provincial and Local Government Affairs
Undertake internal consultation on changes to definitions in PFMA Host Review Workshop with selected Provincial Treasurer's
Work with ADB Technical Adviser on Governance proiect
Review proqress - adiust proiect plans, and inform senior manaqement
Sept 2010 Continue review of PFMA - accountability and control requirements Incorporate stakeholder feedback for updated Finance I nstructions Seek approval for updated Finance Instructions
Continue external stakeholder consultation - Ombudsman, Constitutional Law Reform Commission, Department of Planninq
Host second Workinq Group Meetinq to discuss accountability and control issues Continue internal stakeholder consultation on accountability and control issues Work with ADB Technical Adviser on

Governance oroiect
Review progress - adjust project plans, and inform senior management

Appendix 5

REVIEW PROJECT PLAN

It is proposed that the Review be undertaken in the following phases:
• Phase I - short term priorities: initial stakeholder engagement and identification of issues;
• Phase II - medium term action: detailed analysis of current framework and development of recommendations and changes;
, Phase III - longer term activities: approval of changes and implementation of Review recommendations; and
• Phase IV - post-Review: dissemination of changes and introd uction of new procedures.

DATE I KEY ACTIVITIES
PHASE I: I NITIAL STAKEHOLDER ENGAGEMENT AND ISSUES IDENTIFICATION
March 20 10
Undertake situational analysis (ie: major qaos. oroblems contradictions etc)

Undertake literature search and review to inform develooment of review framework

Undertake stocktake of current financial framework guidance
(eq: relevant leqislation, Finance Instructions, Financial Manaqement Manual)

I dentify oroiect deliverables and key stakeholders

Commence internal stakeholder consultation - Accounting Frameworks Division, Internal Audit

Assess skills of Review Team

Commence caoacity building activities for Review Team
April 20 10
Obtain aqreement on scope of the project

Develop Review framework

Develop communications strateqy "

Develop the oroiect plan

Seek aooroval for Review framework and communications strateqy

Seek Secretarv's aareement to write to external aaencies about the Review.

Continue caoacitv building activities for Review Team

Continue internal stakeholder consultation - Non-tax Revenue, Cash Management

Commence initial external stakeholder consultation - Auditor-Genera l, Treasury.

Link in with Treasury and ADB project on Governance

Aqree on criteria and commence review of Finance I nstructi ons
May 2010
Review and report on oroiect performance

Seek senior manaqement approval for Review fr amework

Develop terms of reference for Working Group

Seek
Workinq Group members

Continue capacity building activities for Review Team

Draft Issues Paper for Working Group on definitions in PFMA

Host first 2010 Finance Forum and inform participants of overview of Review

Continue internal stakeholder consultation - Legal Services, Provincial Financial Manaqement Division

Continue initial external stakeholder consultation - Department of Att orney-General, Law and Justice, State-Solicitor, Department of Prime Minister and NEC

Continue review of Finance Instructions

Appendix 4
DIAGRAM 1: PFMA REVIEW STRUCTURE

, 1

managing risks, particularly investments and contingent liabilities expenditure approval processes
managing public property

• Issue 6: Improving the Readability of Public Financial Management Guidance Possible sub-headings

overall changes
consistency of requirements
gender neutral language and uniformity of language

- clarifying of which requirements are optional and which are compulsory the Financial Management Manual

·• Issue 7: Post Review Activities Possible sub-headings

communicating the changes improving compliance
... introducing ongoing review mechanisms future legislative changes

- further projects (State corporations, guidance on creating new bodies)

Append ix 3

LIST OF PROPOSED WORKING GROUP TOPICS

, Issue 1: Key definitions and Concepts in the PFMA Possible sub-headings

improving the definition of public money and public property

legislative definitions of public bodies

r the concepts of the CRF and Public Account gaps in current PFMA definitions

• Issue 2: Strengthening PFMA Accountability and Controls Possible sub-headings

the requirements that apply to different types of public bodies

- the roles and responsibilities of the Finance and Treasury Departments the roles and responsibilities of Ministers

the roles and responsibilities agency heads and other Govern ment offi cials is there a need for Chief Finance Officers?

delegations

Audit Committees and other controls improving compliance with the PFMA

• Issue 3: Improving Financial Information and Reporting Possible sub-headings
ensuring data quality and timeliness
- financial statement requirements for different types of bodies " the estimates processes regular reporting
- the Budget
- acquittal and reconciliation procedures
• Issue 4: Procurement Possible sub-headings
procurement requirements for different types of public bodies procurement planning procurement options
"' managing procurement risks
- centralised versus decentralised procurement activities the role of Central Supply and Tender Board thresholds
Certificate of Expediency
contract development and management
• tssue 5: Enhancing the Management of Public Resources Possible sub-headings
collecting public mone, y appropriations
managing and keeping track of public money

3. Frequency of meetings
The Working Group shall meet every two to three months at appropriate timesduring the Review, and as otherwise as required.
4. Procedures
The Working Group will consider matters as set out in its terms of reference or as requested by Finance, taking advice as appropriate.
Notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed, shall be forwarded to each member of the Working Group, no later than 5 working days before the date of the meeting.
Working Group members may invite observers to attend meetings.
5. Minutes
Minutes of meetings will record those present, the date and any decisions, action points or recommendations.
Draft minutes will be circulated to all members of the committee, no later than 10 working days before the date of the next meeting.

Appendi x 2

FINANCIAL FRAMEWORK REVIEW WORKING GROUP DRAFT TERMS OF REFERENCE

1. . Membership
Chair: Department of Finance
Committee Members: Department of Treasury, Department of Prime Ministe r & NEC, Department of Personnel Management, Department of Justice, Office of the Auditor-Ge neral, Office of the State Solicitor, Central Supply and Tenders Board, Department of National Planning and Monitoring, a representative of Provincial Treasurers, Department of Finance.
Secretariat will be provided by the Department of Finance.
2. Purpose
The Working Group shall:
• facilitate consultation with stakeholder agencies;
o in consultation with Senior Management from their representative agencies, provide comments and make recommendations to Finance on Review documen tation, including:
o issues papers;
o draft Review recommendations;
o drafting instructions;
o NEC submission;
o revised Financial Management Manual;
o revised Finance Instructions;
• provide technical advice, support and guidance to the Review Team;
• monitor and recommend changes to the Review project plan;

" provide advice about the development and implementation of the communication strategy for the Review and post-Review periods; and
• make recommendations about post-Review activities, such as development of an ongoing review plan, options to improve compliance with the framework and further projects.

Members of the Working Group should:
• attend all meeting, or send an appropriate substitute representative;
• actively participate in meetings;
• read and provide comments of Review documentation, when requested; and
• represent their agency by:
o seeking views from senior management within their agencies on, Review documentation, and prior to each Working Group meeting;
o providing feedback to senior management within their agencies on the Review after each meeting and major activity.

6. Key Internal Stakeholders
To ensure close engagement with internal stakeholders and key decision makers it will be important to regularly meet with and update these stakeholders throughout the Review.

Key internal stakeholders include:
• the Secretary;
• Deputy Secretary Gibson;
• Legal Services Branch;
• Internal Audit Division;
• Non-Tax Revenue Division;
• Cash Management Division; and
• Provincial and District Government Division.

1. Major Consultation Questions
The following key questions will be used to facilitate discussion with stakeholders to gauge the efficacy, usability, and appropriateness of the current framework.
• Is the current framework effective and appropriate?
• Do agencies/officials understand the current framework?
,o Are agencies complying with the current framework?
• Does the current framework address key financial accountability requi rements?
,o Are the responsibility and control mechanisms in the current framework adequate to ensure efficient, effective, and ethical use of public resources?
• Do the current information and reporting requirements provide timely and accurate data on the use of public money and public property?
• Does the current framework ensure the appropriate management of public money and public assets, including the risks involving these two items?

• utilising existing forums, such as the regular Finance Forum, to provide updates about the progress of the Review.

S. Key External Stakeholders
Overarching issues
Interaction of PFMA and the Department of Justice and Attorney General's, Constitutiona l Law Reform other law, particularly the Commission
Constitution
Legislative change Department of Justice and Attorney General's, Law Reform Commiss ion, Office of State Solicitor, Legislative Counci l
Accountability and controls
Key concepts of the CRF, Treasury, Department of Justice and Att orn ey General's, Constitutional public money and public Law Reform Commission, Auditor-Genera l
property
Governance and public Treasury - Structural Policy I nvestme nt Division, Public Sector Reform bodies Management Unit, the Department of Personnel Management,
Independent Public Business Corporation , Department of Provincial and Local Government Affairs
Requirements relating to Finance, Treasury, Department of Provincial and Local Government provincial and districts Affairs, Provincial Treasurers, Auditor-Genera l, Office of Rural Development, Consultative I mplementation and Monitoring Council, National Economic and Fiscal Commission, CSTB.
Responsibilities and Public Service Commission, the Department of Personnel, Public Sector accountabili tv Reform Management Unit, Ombudsman, Audit or-General, the Minister Controls and penalties Public Service Commission, Department of Personnel, Public Sector
Reform Management Unit, Ombudsman, Auditor-General, the Finance Minister
Information and reporting
Information and reporting Finance, Auditor-General, Treasury, Cent ral Ban k, National Economic and Fiscal Commission, Provincial Treasurers, CSTB.

Management of resources and risks
,-
Budget and appropriations Treasury - Budgets Division
Revenue collection Finance, Treasury, IRC, Auditor-General Warrants and cash flows Finance, Treasury, Auditor-General
Bankin g and investment Finance, Auditor-General, Treasury, Central Bank Trust accounts Finance, Auditor-General
Manaoement of liabilities Treasury, Auditor-General, Independent Public Business Corporation
Procurement and asset Department of Works, Department of Lands, Treasu ry, Central Supply management and Tenders Board, Department of Works, Auditor-General

Key activities undertaken during the different phases of the Review include:

• Phase I: Initial stakeholder engagement and issues identi fication
o invite submissions;
o the establishment of Working Group;
o seeking initial feedback from key stakeholders on scope of Review and key issues;
o incorporating key stakeholder feedback into the Review structure;
o presenting key messages about the aim, scope and timeframe of the Review at public forums;
o checking initial framework analysis with the Working Group;
o seeking input into the development of Issues Papers.

, Phase II: Analysis and recommendations
o seeking input into the development of Issues Papers;
o seeking comments on Issues Papers;
o seeking stakeholder feedback on Finance Instructions update;
o presenting key messages about the Review progress at public forums;
o checking detailed framework analysis with the Working Group;
o testing Review recommendations with key stakeholders;
o seeking input on PFMA drafting instructions.

:. Phase III: Approvals
o seeking stakeholder feedback on NEC submission and final drafting instructions;
o presenting key messages about the Review recommendations at public forums;
o obtaining Working Group input into Financial Management manual update.

• Phase IV: Post-Review
o seeking stakeholder input into the development of a new commutations strategy;
o obtaining Working Group comments on new informatio n products and proposed training;
o working with key stakeholders on the development of an ongoing review plan and options to improve compliance with the framework;
o consulting with the Working Group to develop a strat egy to assess the effectiveness of the changes implemented through the Review; and
o seeking key stakeholder input on the prioritisation of further projects.

4. . Communication Mechanisms

The following mechanisms will be used throughout the Review:

• inviting submissions from Government bodies;
• establishing and maintaining a Financial Framework Review Working Group;
• undertaking interviews with key senior managers in Finance and Treasury;
.• holding face-to-face meetings with other internal stakeholders (eg: Non-Tax Revenue Division, Cash Management division);
4! meeting with selected external stakeholders at critical points during the Review to gain t heir feedback on specific issues (eg: seeking the Auditor-General's feedback on changesto fi nancial statement reporting requirements);
• inviting written submissions from other key stakeholders;
• facilitating workshops with key stakeholder groups (eg: financial controllers and Provin cial Treasurers); and

FINANCIAL FRAMEWORK REVIEW COMMUNICATION STRATEGY

1. Overview

In line with the principles for good statutory review, effective consultation with stakeholders should occur at all stages of a review and change process. For this reason, an overarching communication strategy is an important part of the Financial Framework Review.

This communication strategy aims to:

• assist in raising awareness of the Review across Government bodies;
• encourage understanding of the aims, scope and timeframe of the Review amongst key stakeholders;
• identify the most appropriate mechanisms and times to provide informati on about the Review to both internal and external stakeholders;
., ensure a consistent but flexible approach to consultatron that will capture the views of key stakeholders at the major Review stages; and
• facilitate close engagement with those stakeholders involved in decision making about the Review.

2. Key Principles of Communication

The Review communication process is based on the following principles

• continuity - consultation will be a continuous process, that starts when objectives and options are being identified and involves engagement at key intervals throughout the process, including post Review;
• timeliness - stakeholders will be given sufficient time to provide considered responsesto key questions and input into key issues;
• targeting - consultation will be widely based to ensure it captures the range of stakeholders affected by any proposed changes, with specific opportunity provided for key stakeholders, such as Treasury and the Auditor-General, to provide detailed input;
• accessibility - stakeholders will be provided with information about the Review and proposed changes via different forums and where possible, multiple opportunities will be provided for them to input into the Review;
• meaningfulness - stakeholders feedback will be accurately recorded and where appropriate

incorporated into the Review;
• transparency – the objectives of the Review and aims of the consultation processes will be clearly communicated to stakeholders; and
• evaluation – the consultation processes will be evaluated throughout the Review and if required, changes will made to improve consultation.

3. Communication Activities
It is important to ensure that stakeholders are provided key messages and that their feedback is incorporated at each phase of the Review. Stakeholder feedback on Issues Papers, draft recommendations and drafting instructions will be crucial to achieving the Review objectives.

Fiscal Affairs Dept., Washington, D.C.

Robins, G. and Baker, J., 2008, Papua New Guinea: Support for Public Expenditure Review and Rationalization, Technical Assistance Consultant's Report, Project Number: 40260, Asian Development Bank.

Rosen, H., 2002, Public Anance, Boston, McGraw-Hill.

Wescott, C. G, 2008, Background Paper to Public Sector Reform: What Works and Why? An IEG Evaluation of World Bank Support/ World Bank, Washington, D.C.

important element of the communication strategy. Proposed membership and terms of reference for the Review Working Group are at Appendix 2.

The initial stocktake of Finance Instructions will also be undertaken during this phase and an updated list of valid Finance Instructions should be made available.

5.2 Phase II: Analysis and Recommendat ions
The second phase of the Review, from August 2010 to August 2011 involves the main analysis activities. In particular, this phase involves the legislative review, which will be done through development of issues papers based on existing research, analysis of the current legislation and feedback from stakeholders. These issues papers will compare current PFMA wording to the policy intent and to international best practice. A list of possible discussion issues is at App endix 3.

5.3 Phase III: Approvals
The third phase of the Review, September to November 2010, involves the formal approval of the PFMA changes. While this phase can olten take longer than planned, ongoing consultation with both the Finance Minister and Secretary should reduce the need for lengthy clearance time by them.
Similarly, ongoing engagement with central agencies and the State-Solicitor 's Office throughout the review should reduce the need for additional clearance by these entities. That said, t here may be a need for additional clearance time required by NEC.

5.4 Phase I V: Disseminationof Changes
Following the initial three phases of the Review, from early 2012 onwards, there is a need to develop and implement a new communications strategy for the post-Review process. A key focus

of this strategy will be to identify mechanisms to communicate the changes to the PFMA, Financial Management Manual and Finance Instructions, and strategies to train officials about new financial management procedures. During this phase, there is also an opport unity to build on the Review by reassessing resourcing, prioritising further work, and considering ongoing review mechani sms.

6. Further Work

Following the approval of changes to the PFMA there will be a need to:

- develop and implement a new communication strategy to support dissemination of the changes to the framework;
- issue new information products in easy to update formats, such as a new Financial Management Manual;
- ensure all framework documents are available on the Finance websit e and updated on an annual basis;
- provide training to key staff, such as Provincial Treasurers and senior managers in Government Departments;
- update financial information systems to reflect any changes, such as new or revised reporting requirements;
- establish new business processes to answer queries on the framework;
- assess the need for additional resources, such as creation of a new Branch within Finance to develop guidelines on creation of government bodies and provide ongoing governance advice and support;
- develop an ongoing review plan to ensure that financial management guidance is assessed and updated on an ongoing basis;

4.3 Finance Instructions Stocktake Criteria

All current Instructions will be assessed according to the following four principles:

- appropriate authority;

for example, is the content consistent with the PFMA? Was the Instruction approved and issued by the appropriate person consistent with the PFMA?

- relevance;

for example, does the Instruction duplicate other guidance? Was it developed on a time limited subject?

- timeliness;

for example, has it been superseded by new guidance?

- suitability;·

for example, is the Instruction technically accurate? Is it readable? Is there consistency of messages?

One aim of the Finance Instructions Stocktake is to reduce the number of current I nstructions by one third, from ninety-five (95) to less than thirty (30). The remaining Instructions will be updated, reissued, and posted on the Finance Website.

5. Review Timeframe

Given the Review methodology detailed above, it is proposed that the Revie w be undertaken in1:he following phases:

Phase I - short term
March 2010 to August 2010
Initial stakeholder engagement and identification of key issues.
Phase II - medium term
August 2010 to August 2011
Detailed analysis of current framework and development of recommendations.

Phase III - longer term
September 2011 to November 2011
Approval of Review recomme ndations.

Phase IV - longer term
December 2011 onwards
Post-Review dissemination of changes and intr oduction of new procedures.

The Review will occur over the two years with the aim that changes to the PFMA will be implemented from early 2012 onwards. See Appendix 5 for more detailed project plan.

5.1 Phase I: Initial Stakeholder Engagement and Issues Identification
The first phase of the Review, from March to August 2010, involves undertaking a situational analysis, developing relationships with key stakeholders, establishing feedback mechanisms so that stakeholder views can be incorporated throughout the Review, and seeking approval for t he Review structure and workplan. This phase is crucial to ensuring that clear objectives and milestonesfor the Review are established and disseminated, there is commitment to the Review from senior management and other agencies, and that the Review builds on any existing work undertaken on financial management issues.

The communication strategy at Appendix 1 has been developed to facilitate stakeholder engagement throughout the Review process. The establishment of a working group of key agencies is an

Specifically, the legislative analysis will be undertaken through the development of issues papers, which categorise suggested changes to the legislation, as either:
• technical;
• minor policy;
• major policy; or
• areas for further work.

4.2 Structure of PFMA Review
Rather than reviewing the PFMA based on the current sections, which could result in missing gaps in the framework or inconsistencies, it is proposed that the following structu re be used t o analyse the current provisions of the PFMA:
• accountability and controls;
o definitions and terminology;
o roles and responsibilities;
o delegations;
o government bodies;
o requirements for provincial and local-level governments;

o budget controls
o the public accounts committee;
o audit committees;
o finance inspectors;
o penalties and offences;
• information and reporting;
o financial statements;
o bank acquittals/reconciliations;
o monthly reports;
o estimates;
o quarterly reporting;
o budget reporting;
o performance agreements;
o annual reports;
• management of resources and risks;
principles for the management of public money; loans, investment and banking;
debt and fee management; cashflows;
prepayments;
- appropriations;
- Trust Accounts;
Warrants;
- expenditure approvals;
principles for the management of public property; procurement;
._ contracts;
asset management.

(Please see Diagram 1 at Appendix 4).

• enhance management of resources and risks by;
helping the Government to make effective and economical use of its resources, th rough improving the requirements relating to the collection, tracking and remittance of all public money; and supporting the Government to better manage risks and safeguard public resources through improved procurement and management of all public assets.

4. Review Methodology

Feedback from stakeholders, research funded by ADB and other organisations, and decisions of the National and Supreme Courts indicate that there are issues with key concepts in the PFMA, such as ambiguity around the definition of a "public body" and lack of clarity and consistency about which requirements are applicable to different types of public bodies. To ensure that these issues are tackled, the proposed Review methodology involves analysing the PFMA according to the three essential elements of financial management, rather than adopting a linear approach or tackling one or more specific high-profile issues. This approach will ensure that gaps and inconsistencies are identified, by comparing current framework provisions on key issues to ideal requirements and coverage on these issues. For example, rather than just testing whether the current responsibilities of officers such as Heads of Department are appropriate, the Review will explore who should have specific responsibilities, what these responsibilities should be, how the framework should be changed to achieve this, and what guidance and support is needed to support these off icials to fulfil their responsibilities.

Specifically, the legislative analysis will be undertaken through the development of issues papers on the three elements of a financial management framework with further papers to be developed on major framework issues identified by stakeholders, such as procurement. These papers will be used as a basis for considering changes to the PFMA and discussing issues with stakeholders. Consecutively, the Review team will undertake a stocktake of current Finance I nstructionsto reduce and refresh this guidance, as stakeholders have identified some immediate issues with current guidance contained in Finance Instructions. The Financial Management Manual will also be reviewed, consolidated, and updated following agreement to recommendations about changesto the PFMA.

The Review will also build on existing work undertaken by other agencies to make recommendations on changes to the PFMA, update the financial framework guidance, and suggest areas for furt her work. For example, the Review will build on the Papua New Guinea: Support for Public Expenditure Review and Rationalization project on government bodies, and the Central Supply and Tender's Board National Procurement Assessment Report (when available).

4.1 Legislative Review Criteria
In reviewing the PFMA, key considerations will be to determine whether all provisions:
• accord with other PNG whole-of-government statute;
• are easily read and understood;
• clearly provide authority and establish responsibilities;
,. are legally effective to achieve the desired policy objectives (eg: support effective management of resources and risks);
• are internally consistent;
• use appropriate language; and
• are enforceable and include appropriate incentives and/or penalties.

2. The Current PNG Financial Management Framework
The current public financial management framework in Papua New Guinea is made up of three linked sources of guidance:
• the Public Finances (Management) Act 1995 (PFMA), including the single Regulation issued under the PFMA - the legislative basis for public financial management;
• the Financial Management Manual - a detailed procedural guide on day to day financial activities; and
• ninety-five (95) Finance Instructions issued under the PFMA - designed to provide targeted guidance on a specific issue or update officials on changes to the framework.

In recent years, the Permanent Parliamentary Committee on Public Accounts has highlighted significant issues with public financial management in Papua New Guinea, stating that the "...statutory scheme of accounting and accountability for the management of public monies, had collapsed".11 In successive reports, the Committee went on to say, "The Public Finances (Management) Act 1995 requires updating and modernization". Similarly, the Auditor-General, in his 2008 report on the Public Accounts, discussed "Poor accounting records, weaknesses in internal controls and management information systems, non-compliance with legislative requirements,...a lack of concern on the part of a large number of Chief Executive Officers about the financial management in their entities...". Given this feedback, it is timely to review the public financial management framework and make
recommendations for improvement.

.3. The PNG Government Financial Management Framework Review Project
According to the OECD, effective public financial management maximises financial efficiency, improves transparency and accountability, and - in theory - will contribute to the long-term economic success
of a nation.12 The Financial Framework Review Project (the Review) aims to improve the effectiveness of the Government financial management framework by analysing the PFMA and recommending changes, updating all financial management guidance, recommendingmechanisms to improve understanding of and compliance with the framework, and identifying areas for further work to ensure ongoing improvement to the framework.

Grouped according to the three elements of financial management, the objectives of the Review are to:
• strengthen accountability and controls by:
- ensuring that there is appropriate authority and guidance to support decision making about the expenditure of public money and management of public property;
supporting all officials in all public bodies to understand and comply with the requirements relating to the use of public resources;
- empowering senior government officials (including Provinci al Treasurer's) to establish internal controls to support the efficient, effective and ethical use of public resources;
- establishing appropriate sanctions and penalties;
• improve information and reporting through:
specifying the requirements for timely, tom parable, reliable and relevant financial management information from all government bodies;

11 The Permanent Parliamentary Committee on Public Accounts, 2008, pl
12 Pretorius, C. and Pretorius, N, 2008, piii.

government. It is also about those officials being held to account for not achieving those outcomes or for not using public resources in a way that is consistent with the legislation and the priorities of government.

Specifically, it involves the development of appropriate power structures, such as delegations, roles, and responsibilities; clear governance arrangements and clarity about ownership of resources; and the implementation of mechanisms to ensure transparency and accountability for actions, such as audit committees and penalties for non-compliance.

1,2 Information and Reporting
According to the IMF, the public should be provided with comprehensive information on a Government's past, current, and projected fiscal activity and on major fiscal risks.6 Reinforcing this concept, the PNG Permanent Parliamentary Committee on Public Accounts stated that "the preparation and presentation of accurate and reliable Public Accounts is crucial to good governance, democratic rule and the welfare of our people".7

Ensuring the appropriateness, integrity and timeliness of that data is a key goal of a public financial management framework. This element includes the rules about budget documentation, such as final accounts, new expenditure, outturns in preceding years and expected revenue; data on the finances of public corporations and other government bodies; annual statements describing expenditures, contingent liabilities, and other major fiscal risks; and information on the long-term fiscal outlook. It also includes mechanisms to ensure data quality standards, such as external scrutiny of financial statements.

1.3 Management of Resources and Risks
Ensuring that all of the Government's resources are managed economicalyl , effectively, efficiently and ethically to achieve its policy objectives is important to achieve good financial management. 8 It involves the efficient collection and tracking of public money, the proper use of that money, and the appropriate management of property and other assets to enable the Government to carry out its activities now and into the future.9

Preventing loss and managing risk is an essential financial management consideration. Risk is the chance of something happening that will either have an impact on achieving objectives or result in loss of resources.10 Risk management is important to judge the probability of adverse events occurring and unexpected costs arising, while enabling the Government to plan and implement strategies to reduce the likelihood of loss of public money or public property.

In this context, management of resources involves four key concepts: implementing appropriate regimes for revenue collection and taxation, effective expense management systems, a transparent and publicly accountable asset management strategy, and active management or risks to both the Budget and to other resources.

6 IMF, 2007, Code of Good Practices on Fiscal Transparency.
7 The Permanent Parliamentary Committee on Publlc Accounts, 2009, p35.
8 Office of the Auditor General of Canada, 2000, p13-7.
9 IMF, 2007, Code of Good Practices on Fiscal Transparency & Code of Good Practiceson Revenue Transparency.
1 Controller and Auditor-General NZ, 2002.

DEPARTMENT OF FINANCE

FINANCIAL FRAMEWORK REVIEW

- DiscussionPaper 1: Accountability and Controls - Definitions of Public Resources Description:
It is unclear whether the urrent definitions of public money and public property include all money or property held by or on behalf of the State. Therefore, it is difficult to decide which money or property the State is responsible for and whether the PFMA applies.
Current Situation:
The current definitions are:
"public moneys" includes all revenue and loans, trust and other moneys raised or receiv andall bonds/ debentures and other securities received -
(a) by any person on behalf of the State; or
(b)by an officer in his capacity as such on behalf of any other person; "property" means real and personal property;
"stores" means goods and chattels of any kind that are or are intended to be the property o0 or in the possession or under the control ot the State;
Proposed Changes:
"public money" includes all revenue raised, received, borrowed, held or controlled by a public body or a person acting on behalf of the State.
This includes all money received as a result of:
• taxes, fees/ royalties or other charges; and
• bonds, debentures, shares/ securities, term-deposits/ or any other investments; and
• thesale or lease of public property; and
• grants, loans/ donations, or gifts.
It also includes any money held on trust by a public office-holder or public body.

"public property" means real personal or intellectual property, including goods and chattels, held or controlled by a public body or a person acting on behalf of the State.

It also includes any property held on trust by a public office-holder or public body.
Rationale for Change:
Any definition of public resources (ie: money and property) should clearly establish which