

THE PUBLIC ACCOUNTS COMMITTEE

INQUIRY INTO THE DEPARTMENT OF NATIONAL PLANNING AND MONITORING AND THE OFFICE OF RURAL DEVELOPMENT

REPORT TO THE NATIONAL PARLIAMENT

1. INTRODUCTION

- 1.1. On the 13th July 2006 the Permanent Parliamentary Committee on Public Accounts commenced an Inquiry into the Department of National Planning and Monitoring.
- 1.2. Committee Members and other Members of Parliament had experienced difficulty understanding the nature of the Department of National Planning and Monitoring and its purpose and had received a number of complaints concerning the performance of both the Department of National Planning and Monitoring and the Office of Rural Development.
- 1.3. The Committee had also considered Reports of the Office of the Auditor General on the Department of National Planning and Monitoring and the Office of Rural Development for the period 2000 – 2005, including a special audit into Procurement Practices and Procedures.
- 1.4. Those Reports caused the Committee some concern, as they recorded failures in basic accountability and management of both National budgetary matters managed by the Department and of Departmental finances.
- 1.5. The Public Accounts Committee resolved to inquire into the operations of the Department of National Planning and Monitoring and the Office of Rural Development as matters of National importance in accordance with Section

17 of the ***Permanent Parliamentary Committees Act 1994.***

- 1.6. An Inquiry was convened on the 13th July 2006 and completed on the 15th February 2007.
- 1.7. The Committee resolved to make this Report to the National Parliament and to make certain findings and resolutions which are contained in this Report.

2. EXECUTIVE SUMMARY

- 2.1 This is a Report of particular national importance considering, as it does, the standard of performance in service delivery, management and coordination of national development budgets, projects and programs by the Department of National Planning and Monitoring and the Office of Rural Development.
- 2.2 The evidence heard by this Committee has clearly shown a litany of failures and incompetence in the Department of National Planning and Monitoring and the Office of Rural Development that would be serious in a minor arm of Government – and which are utterly unacceptable in these two major line agencies.
- 2.3 A summary of the conclusions of the Committee are as follows:
 - (a) Both the Department of National Planning and Monitoring and the Office of Rural Development have deteriorated to the point where their performance in managing public monies is, at best, marginal; and
 - (b) The Department of National Planning and Monitoring and the Office of Rural Development have profound problems in management, accountability, transparency, competence and ability to perform their functions; and
 - (c) The Department of National Planning and Monitoring and the Office of Rural Development are incapable of competently and lawfully managing even their own Departmental budget; and

- (d) The Department of National Planning and Monitoring and the Office of Rural Development are unable to manage, implement, control, co-ordinate, oversee, monitor, account for, audit or apply public monies in the form of Development Budgets, Programs or Projects to any acceptable standard of competence; and
- (e) Incompetence and inability compounded by poor morale, corruption and almost total loss of command and control by management in both the Department of National Planning and Monitoring and the Office of Rural Development have been very largely responsible for poor or non existent delivery of services and development to our remote (and not so remote) areas and is responsible for the failure to manage or coordinate the implementation of development programs or projects.
- (f) This failure has, over many years, resulted in huge wastage of public monies appropriated to development programs and projects, to the detriment of our citizens; and
- (g) The situation is so bad that the Auditor General cannot ascertain whether hundreds of contracts funded under development programs or grants over many years have begun, are proceeding, have stopped, been terminated, been reallocated, been lawfully tendered or allocated, been completed or even exist in fact; and
- (h) There is no capacity to oversee or monitor contracts or projects and virtually no records, accounts or acquittal of these contracts, Grants, program monies or funding; and
- (i) As much as 70% of annual development budgets has been underspent by the Department of National Planning and Monitoring; and
- (j) The identified failures are a serious failure in the application and implementation of public monies, political development policies and Government development directives; and

- (k) These failures have continued unaddressed for years, even though they were known; and
- (l) The Department of National Planning and Monitoring and the Office of Rural Development have both failed to cooperate with the Auditor General and has actively tried to hide its failures and maladministration by refusing to produce documents, records and information; and
- (m) The Audits of the Department of National Planning and Monitoring are incomplete and qualified because the Department cannot and has not maintained or produced records, accounts, data, statements or any documents recording basic accounting information. The Department cannot even reconcile its own bank accounts; and
- (n) The failures identified by the Auditor General have clearly worsened over the last five years to a point where Departmental management are incapable of remedying or even understanding the failures; and
- (o) Management of the Department of National Planning and Monitoring and the Office of Rural Development have taken no steps to address failures identified by the Auditor General over the last five years; and
- (p) This Committee found a management team in denial of these failures and unable even to bring themselves to admit the need for internal auditors – a basic tool of management that the Department has not had for years; and
- (q) Neither the Department of National Planning and Monitoring nor the Office of Rural Development have any or any adequate internal systems, corporate or divisional plans, processes or abilities to conduct or manage either their own internal affairs or the National development budgets, Grants or programs that are their responsibilities, in a competent or lawful manner; and

- (r) The Auditor General and this Committee found constant breaches of the **Public Finances (Management) Act 1995** and the **Financial Instructions** in both the management of internal finances and the management of those parts of the National development budget which are the responsibility of the Department; and
- (s) The Committee finds that the Department of National Planning and the Office of Rural Development have little idea of their role and responsibilities in nation building; and
- (t) The Committee finds that the Department of National Planning and Monitoring and the Office of Rural Development staff and management demonstrated low morale and confusion and little or no ability to self improve; and
- (u) The Department has suffered from constant political interference and restructuring and has grown in a haphazard and chaotic manner according to political whim over the last two decades; and
- (v) Powers and responsibilities have accreted to the Department of National Planning and Monitoring by political directive when it was clear that the Department was unable to properly fulfill demands placed on it; and
- (w) Service delivery and management of development budgets, programs and projects by the Department of National Planning and Monitoring and the Office of Rural Development is inadequate, poorly administered, often illegal, uncontrolled, without oversight and with no long term aims, records, data or result; and
- (x) The Department of National Planning and Monitoring has failed as an implementing, co-ordinating, managing or service and development delivery body; and

- (y) The Department of National Planning and Monitoring and the Office of Rural Development failed to cooperate with this Committee and failed to give candid and true answers to certain questions.

In particular, when the Inquiry asked searching questions and addressed failures in the Department, the Head of the Department absented himself from the Inquiry; and

- (z) The Department of National Planning and Monitoring refused to cooperate with the Auditor General, to the point where responsible Departmental officers walked out of debriefing meetings with the Auditor General; and
- (aa) The Department of National Planning and Monitoring refused or failed to provide documents, records, data and information to both the Auditor General and this Committee – despite undertakings from the Head of Department to do so; and
- (bb) The Department of National Planning and Monitoring failed to keep, create, maintain or produce accounts, records, information and reports which it was required to maintain and produce; and
- (cc) The Department of National Planning and Monitoring has, for many years, failed to obey the requirements of law for tendering, assessment and awarding of contracts and appears incapable of understanding or remedying this failure; and
- (dd) Management of the Department demonstrated no ability to change or adapt to meet challenges. It was clear that senior managers could not understand the need for an internal audit unit or accept that there was anything wrong with the Department at all – until the weight of evidence compelled the Head of Department to concede that his Department was incompetent; and
- (ee) The Department has clearly become derelict and dysfunctional both in managing its own affairs and

affairs of national importance such as implementing and managing development budgets and service delivery – the fact that the Department consistently underspends its budget by huge amounts is testament to its inability to manage development in any competent form; and

- (ff) Successive Governments have allowed a chaotic and uncontrolled situation to develop in these two crucial line agencies – and this explains much of the failure to see service delivery or any tangible development in our Districts.

- 2.4 This Committee has not considered the efficacy of the Department as an advisory or planning body, but only the standard of management of and accounting for public monies.
- 2.5 We can only hope that the performance in the area of planning is better than that of implementation.
- 2.6 In particular, the Committee finds that the Office of Rural Development is equally dysfunctional and non-performing, with virtually no ability to manage, monitor, account for, report on, record or oversee implementation of development Programs or Grants.
- 2.7 The Committee also finds illegality, corruption, constant and un-remedied breaches of the **Public Finances (Management) Act 1995** and **Financial Instructions** in the Office of Rural Development.
- 2.8 The picture which clearly emerged from our Inquiry is of two line agencies of critical national importance which have both deteriorated to a point where they are almost non-functional.
- 2.9 This Committee cannot understand how management of these two agencies can perform their functions without internal systems, lawyers, auditors or data capture and analysis. The answer, of course, is that they cannot.
- 2.10 A summary of the recommendations of the Public Accounts Committee is as follows:

- (a) Government must urgently consider this report and the reports of the Auditor General and accept that the failures identified in those documents have resulted in failed service delivery and failed implementation of development policies and funding; and
- (b) We seriously doubt whether, on all the evidence taken in this and other Inquiries, public monies allocated to development can be entrusted to our Public Service (and the Department of National Planning and Monitoring and the ORD in particular) with any confidence that the money will be handled honestly or with the desired effect.
- (c) This Committee has seen rampant incompetence, theft, illegality, misappropriation and criminality involving public monies in every inquiry that we have made – including this one - and this situation cannot continue.

Immediate reforms and changes:

- (d) We recommend that this Parliament give immediate and urgent attention to removing all power over implementation, planning and coordination of development budgets and service delivery from the current Public Service (in particular the Department of National Planning and Monitoring and the Office of Rural Development) and reposing it in a specialized (possibly Constitutional) agency that is subject to constant oversight and from which absolute accountability for its handling of public monies and Government policies can be demanded and enforced at any time; and
- (e) This Committee recommends that immediate attention be paid to completely redesigning the scheme of management and implementation of development budgets, as neither the Department of National Planning and Monitoring or the Office of Rural Development are capable of performing to anything like an acceptable standard.
- (f) The country urgently needs a professional, planned, highly effective, responsive and properly funded and staffed agency to take control of service delivery and

development implementation – particularly competent and ongoing oversight and management of projects and contractors.

- (g) We recommend that the current management team of both the Department of National Planning and Monitoring and the Office of Rural Development be immediately replaced with competent and professional managers and administrators capable of bringing modern and functioning systems to the Department and the Office, pending longer term changes; and
- (h) We strongly recommend that the Government, in the short term, bolster the Department of National Planning and Monitoring and the Office of Rural Development by an urgent infusion of experts in the fields of Law, Auditing and Accounting in an attempt to guide and control senior decision makers and bring immediate transparency and accountability to the Department while longer term changes are considered;

Longer term reforms and changes:

- (i) In the longer term this Parliament must consider the entire system of service and development delivery in Papua New Guinea.
- (j) We recommend that, as a matter of urgency, the Government must immediately consider the introduction of a competent modern and expert implementation agency and system to lawfully apply and supervise the implementation of Development Budgets.
- (k) Such an agency should be highly responsive and accountable with the sole purpose of maximizing the value of every kina allocated to development for our people. We should never again entrust development monies to agencies that are incompetent and able to hide their failures for years.
- (l) Any system that replaces or reforms the current one must be based on a precise and clear statutory foundation that concisely sets forth directives, powers,

performance benchmarks, audit control, penalties for non compliance or failure to achieve targets.

- (m) Any system that replaces or reforms the present one should have adequate funding, competent expert staff and management, ability to oversight and manage projects or contracts, ability to penalize for non performance or unlawful conduct and all other matters that are required to implement political decisions but which currently do not exist.
- (n) Moreover such a system must be beyond political interference and public service incompetence and corruption while being the subject of constant audit and oversight.
- (o) We recommend the immediate formation of a Parliamentary Committee to investigate and advise the recommended model for such an agency having regard to world's best practice in such matter.
- (p) That Committee is the ideal device to advise the Parliament on this vital matter and it should be given three months to complete its work and report to the Parliament.
- (q) The Committee should consider all alternatives including but not limited to privatization of service delivery or oversight and audit, co-operative arrangements with foreign governments, alliances with private enterprises, sourcing of expertise from other countries, secondment of national expertise from private enterprise, liasons with Church organizations and any other system that will result in a, responsive and accountable delivery and coordinating agency which can turn policy and decision into action for our people and perform to a high standard.
- (r) Such a Committee should invite and consider submissions from all useful sources including the Public Service but should be charged and capable of weighing all the evidence and making its own recommendations.

- (s) We do not intend such a Committee to be an excuse for using public monies to take international trips or make "fact finding" missions for little result. Almost all the investigation required can be carried out in Papua New Guinea with the assistance of Government agencies and foreign embassies or legations and expert opinion and assistance commissioned by letter and other communication media.
- (t) Members of this Committee should be carefully chosen to ensure that the Committee is comprised of members with the necessary personal and intellectual qualities to act independently and to understand and consider the evidence and data produced to the Committee.
- (u) In short, the state of service and development delivery is so dire that no possible method of effective and lawful delivery should be excluded from consideration.

2.11 As we have said, we are left with a troubling doubt that the Public Service can be trusted to act honestly or effectively in managing vital national development without sweeping changes and reform – beginning with Government bringing the department of National Planning and Monitoring, the Office of Rural Development and the Public Service in general, under some form of control and accountability – as our Constitution provides.

2.12 The Committee concludes that if the failings in service delivery and development implementation are allowed to continue and public money is mismanaged and misapplied as it is now, our people will become increasingly alienated and angry at our failure – and this is a situation that we cannot allow to happen.

3. CHRONOLOGY

- 3.1. The Inquiry commenced on the 13th day of July 2006 and reconvened on the 17th July 2006, the 18th August 2006, the 13th September 2006, the 17th November 2006, the 12th December 2006, the 15th January 2007 and finally on the 15th day of February 2007, when the Inquiry was completed.
- 3.2. On the 17th day of July 2006 a Notice to Produce documents and information moved from the Public Accounts Committee to

the Department of National Planning and Monitoring pursuant to Section 23 (1) (b) of the ***Permanent Parliamentary Committees Act*** 1994. A copy of that Notice appears in Schedule 1 to this Report.

- 3.3. On the 3rd day of January 2007, a further Notice to Produce documents and information was served by the Committee on the Department of National Planning and Monitoring. A copy of that Notice appears in Schedule 1 to this Report.
- 3.4. On the 17th day of July 2006, a Notice to Produce documents and information moved from the Public Accounts Committee to the Acting Director of the Office of Rural Development. A copy of that Notice appears in Schedule 1 of this Report.
- 3.5. On the 3rd January 2007 a second Notice to Produce information and documents moved from the Public Accounts Committee to the Acting Director of the Office of Rural Development. A copy of that Notice appears in Schedule 1 to this Report.
- 3.6. On the 12th December 2006, the Public Accounts Committee made oral requests to the Office of Rural Development to produce further information and records. The Acting Director of that Office undertook to do so.
- 3.7. Responses to the two Notices to Produce by the Department of National Planning and Monitoring were received by the Public Accounts Committee on the 21st August 2006 and the 1st February 2007.
- 3.8. The Office of Rural Development gave responses to the two Notices to Produce on the 25th August 2006 but did not respond to the Notice to Produce given on the 3rd January 2007 – despite being asked to do so in the Hearing of the 15th February 2007.
- 3.9. However, the Office of Rural Development did, on the 9th February 2007 deliver to the Committee a response to oral requests for further information given by the Committee on the 12 December 2006.

4. LIST OF ABBREVIATIONS

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|-----|---------------------------|---|
| 4.1 | "PF(M)A" | Public Finances Management Act 1995 |
| 4.2 | "PAC" | Public Accounts Committee. |
| 4.3 | "The Constitution" | The Constitution of the Independent State of Papua New Guinea |
| 4.4 | "The Committee" | The Permanent Parliamentary Public Accounts Committee. |
| 4.5 | "The Secretary" | The Secretary of the Department of Finance. |
| 4.6 | "The Department" | The Department of National Planning and Monitoring. |
| 4.7 | "The Auditor" | The Office of the Auditor General |
| 4.8 | "The Office" | The Office of Rural Development |

5. COMPOSITION OF THE COMMITTEE

- 5.1 The Public Accounts Committee which made inquiry into the department of National Planning and Monitoring and the Office of Rural Development was constituted as follows:

5.2 **13th July 2006**

Hon. Chris Haiveta M.P. – Acting Chairman.

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

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

Hon. John Vulupindi M.P. – Member.

Hon. James Togel M.P. – Member.

Hon. Tony Aimo M.P. – Member.

Hon. Ekis Ropenu M.P. – Member

5.3 **17th July 2006**

Hon. Chris Haiveta M.P. – Acting Chairman.

Hon. John Vulupindi M.P. – Member.

Hon. Tony Aimo M.P. – Member.

Hon. Michael Mas Kal M.P. – Member.

5.4 **18th August 2006**

Hon. Chris Haiveta M.P. – Acting Chairman.

Hon. John Vulupindi M.P. – Member.

Hon. Tony Aimo M.P. – Member.

Hon Michael Mas Kal M.P. – Member.

5.5 **13th September 2006**

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

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

Hon. Bunare Bun M.P. – Member.

Hon. John Vulupindi M.P. – Member.

Hon. Ekis Repenu M.P. – Member.

5.6 **17th November 2006**

Hon. James Togel M.P. – Acting Chairman.

Hon. Michael Mas Kal M.P. – Member.

Hon. Ekis Ropenu M.P. – member.

Hon Timothy Tala M.P. – Member.

5.7 **12th December 2006**

Hon. Leo Hannette M.P. – Chairman.

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

Hon. Ekis Ropenu M.P. – Member.

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

Hon. Tony Aimo M.P. – Member.

Hon. Mathew Gubag M.P. – Member.

Hon. Yawa Silupa M.P. – Member.

Hon. Posi Menai M.P. – Member.

5.8 **15th January 2007**

Hon. Leo Hannette M.P. – Chairman.

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

Hon. James Togel M.P. – Member.

Hon. Andersen Vele M.P. – Member.

5.9 **15th February 2007**

Hon. Leo Hannett MP – Chairman

Hon. Dr. Bob Danaya MP – Deputy Chairman

Hon. James Togel MP – Member

Hon. Andersen Vele MP – Member

Hon Michael Mas Kal MP - Member

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

6. PURPOSE OF THE INQUIRY

- 6.1 The purpose of the Inquiry conducted by the Public Accounts Committee was to make full and complete examination of the manner in which the Department of National Planning and Monitoring and the Office of Rural Development controlled transactions with or concerning public monies, accounted for those monies, protected the position of the Independent State of Papua New Guinea, complied with the **Public Finances (Management) Act 1995** and other requirements of Law, controlled and monitored expenditure and managed their own budget and finances – having regard to the Reports of the Office of the Auditor General, during the period 2000 – 2006.
- 6.2 The primary aims of the Inquiry conducted by the Public Accounts Committee were to:
- (a) establish the standard of management of and accountability for public monies by the Department of National Planning and Monitoring and the Office of Rural Development; and
 - (b) establish the efficiency of the Department of National Planning and Monitoring and the Office of Rural Development in implementing development budgets and carrying out their functions – in particular the delivery of services; and
 - (c) establish the degree to which the Department of National Planning and Monitoring and the Office of Rural Development complied with requirements of law in their operations; and
 - (d) establish the standard and effectiveness of internal systems and processes within the Department of National Planning and Monitoring and the Office of Rural Development; and
 - (e) establish the standard of management of the Departmental budget and the competence with which

the Department of National Planning and Monitoring and the Office of Rural Development manages its own finances; and

- (f) assess the effectiveness of the Department of National Planning and Monitoring and the Office of Rural Development in delivering services to our people; and
- (g) assess the degree to which management of the Department of National Planning and Monitoring cooperated with the Auditor General and the manner in which the management team of the Department and the Office of Rural Development responded to and remedied critical findings by the Auditor General; and
- (h) assess the ability and success of the Department of National Planning and the Office of Rural Development in implementing development policies and programs; and
- (i) assess the ability of the Department of National Planning and Monitoring and the Office of Rural Development to manage, oversee and control projects and contracts funded by Government development budgets or allocations; and
- (j) generally review and report on the state and condition and performance of the Department of National Planning and Monitoring and the Office of Rural Development in respect to management of and accountability for public finances and property.

- 6.3 The size and significance of the responsibilities of the Department of National Planning and Monitoring can be seen in the Budget administered by the Department.
- 6.4 The recurrent Budget for 2006 is K 4,028,000 and the Auditor General finds that the Department is incapable of managing this budget effectively – or accounting for it in a lawful and acceptable manner. This situation has prevailed for years.
- 6.5 However, the Department was also required to manage, coordinate and implement a Development Budget of K 488,478,900 in 2006.

- 6.6 This huge responsibility would tax the ability of a properly functioning and competent Department – and the Department of National Planning and Monitoring is neither of these.
- 6.7 This Committee concludes that the result of this failure is clear. Development and services are not delivered and money that is allocated is generally without control or oversight and does not result in coordinated or controlled development for our people.
- 6.8 This is a significant national failure that needs to urgently be addressed.
- 6.9 The Inquiry was not conducted to improperly pursue or criticize any person or entity, but to make a constructive and informed Report to the Parliament on any changes which the Committee perceives to be necessary to any item or matter in the accounts, statements or reports or any circumstances connected with them and any matter arising from the Inquiry considered worthy of report to the Parliament.
- 6.10 Further, the intention of the Inquiry was to enable the Committee to report to the Parliament in a meaningful way on alterations that the Committee thinks desirable in the form of the public accounts as manifested in the operation of the Department of National Planning and Monitoring and/ or the Office of Rural Development, in the method of keeping them, in the method of collection, receipt, expenditure or issue of public monies and/or in the control of and accountability for public monies.
- 6.11 The Public Accounts Committee received oral and documentary evidence from Secretary of Department of National Planning and Monitoring, Mr. Valentine Kambori, and the Acting Director of the Office of Rural Development, Mr. Paul Sa'ai.
- 6.12 At the conclusion of the Inquiry, the Public Accounts Committee resolved to make a Report to the Parliament concerning the Inquiry and the Committee findings.
- 6.13 At all times, the Committee has taken great care to enable witnesses to make full and complete representations and answers to any matter before the Committee – in particular

matters about which the Committee could make adverse findings against individuals or other entities.

- 6.14 The Public Accounts Committee has taken care to fully consider all responses and evidence presented to the Committee.
- 6.15 All evidence was taken on oath and full and due inquiry was made of all relevant State Agencies where the Committee considered those inquiries to be necessary.
- 6.16 The Committee has carefully questioned Officers of the Department of National Planning and Monitoring and the Office of Rural Development – particularly concerning the state of records, accounts and acquittals of public monies and the management of the Departmental and Office budgetary allocations and finances.
- 6.17 The evidence given was often responsive, but as the Inquiry delved into the functions and performance of the Department of National Planning and Monitoring and the Office of Rural Development, the evidence became less clear and candid.
- 6.18 The Committee was not helped by the frequent absences from the Inquiry of the Acting Secretary for the Department of National Planning and Monitoring, Mr. Valentine Kambori and the Acting Director of the Office of Rural Development, Mr. Paul Sa'ai.
- 6.19 Both these senior officers absented themselves from the Inquiry for lengthy periods of time claiming to have more important engagements.
- 6.20 It is unacceptable that such senior officers should behave in this manner to a Parliamentary Committee – particularly when the questioning concerns their own accountability and performance as Departmental or Office Head.
- 6.21 Further, to leave junior officers alone to give sworn evidence and answer questions from the Committee deserves and will, in this Report, receive censure from the Committee.
- 6.22 The deliberate absence of these two senior officers from the Inquiry, impeded the Committee and resulted in less than satisfactory evidence.

- 6.23 This Committee considers the absences to be designed to avoid the acceptance of responsibility for failures of the Department or the Office of Rural Development and considers that these two senior Officers personify the inability of the Department and the Office to accept the manifest failures and illegality identified by the Auditor General and to deal with them.
- 6.24 The Committee means no criticism of the junior officers who no doubt did their best, but they should not have been placed in the position that they were.
- 6.25 Attendance before and cooperation with a Parliamentary Committee is a matter of duty and courtesy – particularly in a Head of Department or his equivalent.
- 6.26 Neither the Secretary for the Department of National Planning and Monitoring Mr. Valentine Kambori, nor the Acting Director of the Office of Rural Development, Mr. Paul Sa'ai demonstrated either attribute to this Inquiry.

7. JURISDICTION OF THE PUBLIC ACCOUNTS COMMITTEE

THE CONSTITUTION OF THE INDEPENDENT STATE OF PAPUA NEW GUINEA.

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

"216. Functions of the Committee

- (1) The primary function of the Public Accounts Committee is, in accordance with an Act of the Parliament, to examine and report to the Parliament on the public accounts of Papua New Guinea and on the control of and on transaction with or concerning, the public monies and property of Papua New Guinea".***
- (2) Sub-section (1) extends to any accounts, finances and property that are subject to inspection and audit by the Auditor General under Section 214 (2) ... and to reports by the***

Auditor General under that Sub-section or Section 214 (3)...".

- 7.2 The Committee has taken care to restrict its Inquiry to an examination of the control of and on transactions with or concerning the public monies of Papua New Guinea.
- 7.3 Whilst considering the relevant provisions of the Constitution, the Committee has had regard to the **Final Report of the Constitutional Planning Committee 1974** and been guided by or applied the stated intentions of that Committee wherever necessary.
- 7.4 The Public Accounts Committee has had due regard to reports by and conclusions of the Auditor General, but has conducted its own Inquiry into matters deemed by the Committee to be of National Importance or which arise naturally from primary lines of Inquiry and which are within the jurisdiction and function of the Committee as set forth in the Constitution.
- 7.5 Whilst engaged in the Inquiry the Committee was guided by two definitions contained in Schedule 1.2 ***Constitution***, which are directly relevant to Section 216 of the Constitution. They are:

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

and

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

8. THE PUBLIC FINANCES (MANAGEMENT) ACT 1995.

- 8.1. The Public Accounts Committee also finds its jurisdiction to Inquire into the Department of National Planning and

Monitoring and the Office of Rural Development in Section 86 of the ***Public Finance (Management) Act 1995***.

- 8.2. That Section empowers the Committee to examine accounts and receipts of collection and expenditure of the Public Account and each statement in any Report of the Auditor General presented to the Parliament.

9. PERMANENT PARLIAMENTARY COMMITTEES ACT 1994.

- 9.1. The Committee resolved that a full Inquiry into the operation of the Department of National Planning and Monitoring and the Office of Rural Development was a matter of national importance and found further jurisdiction for the inquiry in Section 17 of the ***Permanent Parliamentary Committees Act 1994***.

10. THE AUTHORITY TO REPORT

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

11. THE AUTHORITY TO REFER

- 11.1. Where satisfied that there is a prima facie case that a person may not have complied with the provisions of the ***Constitution of the Independent State of Papua New Guinea*** and / or the ***Public Finances (Management) Act 1995*** in connection with the control of, or transaction with and concerning the accounts of a public body or public moneys and property of Papua New Guinea, it may make referrals of that person to the Office of the Public Prosecutor in accordance with Section 86A of the ***Public Finances (Management) Act 1995***.
- 11.2. The Public Accounts Committee is not a true investigatory body capable of investigating and/or prosecuting persons for breaches of the law.
- 11.3. The Committee is required to refer such matters to the appropriate authorities and may make such recommendations

as it thinks fit in relation to any referral made pursuant to Section 86A.

- 11.4. The Committee is also empowered to refer for prosecution, any witness who fails to comply with a Notice to Produce any document, paper or book and / or any person who fails to comply with a Summons issued and served by the Committee. See Section 23 ***Permanent Parliamentary Committees Act 1994***.
- 11.5. Further, Section 20 of the ***Parliamentary Powers and Privileges Act 1964*** permits the Committee to refer for prosecution any person who, inter alia, fails to comply with a Summons to produce books, papers or documents specified in the Summons.
- 11.6. The Committee understands that to make referrals, particularly of a senior public servant, is a very serious matter which will adversely reflect on the individual concerned.
- 11.7. Referrals are not made lightly but only after careful consideration of all the evidence and unanimous resolution by the Committee.

12. METHOD OF INQUIRY

- 12.1. The Inquiry by the Public Accounts Committee into the Department of National Planning and Monitoring and the Office of Rural Development was a public hearing at which sworn evidence was taken from a small number of witnesses.

13. PRIVILEGES AND PROTECTION OF WITNESSES

- 13.1. The Public Accounts Committee has taken care to recognise and extend to all witnesses the statutory privileges and protection extended by the ***Public Finances (Management) Act 1995*** and the ***Permanent Parliamentary Committees Act 1994*** and the ***Parliamentary Powers and Privileges Act 1964***.

14. RELEVANT STATUTES

- 14.1. The Committee was required to consider the following Statutes during the course of the Inquiry:

PUBLIC FINANCES (MANAGEMENT) ACT 1995.

- 14.2. The ***Public Finances (Management) Act 1995*** prescribes the method and standard for the administration of and accounting for public monies, public properties and assets by State entities in Papua New Guinea.
- 14.3. Further, the Act imposes certain obligations on Public Servants for collection of State revenue and controls the expenditure of State or public monies.
- 14.4. Relevant sections of the Act which were considered by the Public Accounts Committee during the course of the Inquiry into the Department of National Planning and Monitoring and the Office of Rural Development were:

(i) Section 5 – Responsibilities of Heads of Department

This Section prescribes the duties, powers and obligations of both the Head of the Department of National Planning and Monitoring and the Acting Director of the Office of Rural Development.

(ii) Section 3 – Responsibilities of the Minister

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

(iii) Part X - The Public Accounts Committee

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

(iv) Part XI - Surcharge

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

(v) **Section 112 – Offences**

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

(vi) **Section 6 – Accountable Officers -.**

This Section imposes duties on all Officers who, inter alia, authorize the payment of public money. .

(vii) **Section 9 – Powers of Departmental Head and Finance Inspectors.**

This Section sets out the powers given to the Secretary of the Department of National Planning and Monitoring and the Acting Director of the Office of Rural Development and his Inspectors, including access to and inspection of accounts and records.

At all times the Secretary and his Inspectors have power to enforce the terms of the ***Public Finances (Management) Act 1995*** and the ***Financial Instructions*** and thereby bring accountability and responsible and lawful management to their Department or Office.

(viii) **Section 15 – Establishment of Trust Accounts.**

This Section prescribes the power to establish Trust Accounts and the manner in which that establishment must be done.

(ix) **Sections 16 and 17 – Payments into and out of Trust Accounts.**

This Section sets out the nature of deposits into Trust Accounts and the purposes for and circumstances in which money may be paid out of Trust Accounts.

(x) **Part VIII – State Tenders and Contracts**

This Part prescribes the lawful procedures for procurement by the State and almost all its agencies.

FINANCIAL INSTRUCTIONS

- 14.5. Section 117 of the ***Public Finances (Management) Act 1995*** enables the promulgation of certain Financial Instructions which establish detailed procedures for the handling, collection, expenditure, disposal of and accounting for public monies, property and stores.
- 14.6. The Public Accounts Committee had regard to these Financial Instructions or Directives in the course of this Inquiry.
- 14.7. In particular, the Committee had regard to **Part 6 Division 1 Para. 2.1– Accountable Officers**. That paragraph reads, in part:

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

ORGANIC LAW ON THE DUTIES AND RESPONSIBILITIES OF LEADERSHIP

- 14.8. The Public Accounts Committee has had regard to this Organic Law in the course of this Inquiry. Resolutions were considered within the terms of this Organic law and are more fully developed (infra).

AUDIT ACT

- 14.9. The ***Audit Act*** establishes and empowers the office of the Auditor General to carry out its work of overseeing and supervising the handling of public monies, stores and property by all arms of the National Government.

14.10. The Public Accounts Committee had regard to the terms of this Act during the course of this Inquiry

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

PERMANENT PARLIAMENTARY COMMITTEES ACT 1994.

14.12. The Committee has had regard to Sections 17, 22, 23, 25, 27, and 33 of the ***Permanent Parliamentary Committees Act 1994*** during the course of this Inquiry.

PARLIAMENTARY POWERS AND PRIVILEGES ACT 1964

14.13. The ***Parliamentary Powers and Privileges Act 1964*** sets forth those privileges and powers extending to Members of Parliament, Committees of Parliament and Officers or Parliamentary Staff.

14.14. In the course of this Inquiry, the Committee had cause to examine this Statute.

15. RESPONSIBILITIES OF THE AUDITOR GENERAL

15.1 The Auditor General is a Constitutional Office Holder and the duties and responsibilities of that Office are contained in the ***Audit Act 1989***.

15.2 The standard of the Reports of the Auditor General into the Department of National Planning and Monitoring were, on the whole, competent and adequate.

15.3 However, the format of the Auditor General's Reports changed in 2005 to concentrate on Procurement Processes and Procedures and, while this information is important and revealing, the Auditor General did not present the usual close review and report on internal management as he did in the Reports for 2000 – 2004.

15.4 We suggest that the format be amended to include the detailed matters contained in both the 2004 and 2005 reports. These two reports gave an unprecedented and candid picture of the

state of the Department of National Planning and the Office of Rural Development which, when considered together, were of great assistance to the Committee.

- 15.5 The oral evidence received from officers of the Auditor General was clear, concise and helpful to the Committee.
- 15.6 In the last five years we have considered many reports of the Auditor General on all Departments and arms of Government and have, on occasions, sought special audits from the Office of the Auditor General.
- 15.7 We have seen a huge improvement in the quality of Audits and Reports and the evidence given by the Auditor General.
- 15.8 The Office of the Auditor General is slowly reaching a level of competence and thoroughness in its work that will result in the quick detection of incompetence and failure in the management of and accounting for public monies, that good governance demands.
- 15.9 The Committee fully understands the severe staffing constraints attending the Office of the Auditor General but will make recommendations in respect of the funding and resourcing of that Office by the Government of Papua New Guinea, to enable it to carry out its statutory duty in a competent and timely manner.

16 THE DUTIES, POWERS AND RESPONSIBILITIES OF THE HEAD OF THE DEPARTMENT OF NATIONAL PLANNING AND MONITORING.

- 16.1 The Secretary for National Planning and Monitoring has certain obligations imposed by the ***Public Finances (Management) Act 1995***.
- 16.2 The basic duties of the Head of the Department of National Planning and Monitoring imposed by the ***Public Finances (Management) Act 1995*** are at least:
 - (a) To ensure that all the requirements of the ***Public Finances (Management) Act 1995*** and the ***Financial Instructions*** are met by himself and all responsible Officers of the Department; and

- (b) To ensure that all accounts and records relating to the functions and operations of the Department are properly maintained; and
- (c) To ensure that all expenditure is properly authorized and applied to the purposes for which it was appropriated; and
- (d) To ensure that expenditure is proper, lawful and made with due regard to economy, efficiency and effectiveness; and
- (e) To safeguard public funds and ensure propriety and regularity in the expenditure of funds appropriated by Parliament. In this context the Head of any Department is personally liable to make good any sum that the Public Accounts Committee may disallow; and
- (f) To ensure prompt and responsive action to remedy any defect identified by the Office of the Auditor General; and
- (g) To ensure full and frank co-operation with the Office of the Auditor General; and
- (h) To ensure that information required by the Public Accounts Committee is submitted to that Committee accurately and promptly; and
- (i) To ensure that proper estimates are provided; and
- (j) To ensure all Reports and records including and in particular acquittals and accounts are given in a timely fashion and in proper form; and
- (k) To ensure that officers of the Department of National Planning and Monitoring who may be deployed at Provincial and District level perform their duties – in particular that of keeping records of, overseeing and accounting for all Contracts and Projects which are the responsibility of the Department; and
- (l) To ensure proper and lawful control of and accounting for any Trust Account under his control and compliance

by the Trustees with the requirements of the ***Public Finances (Management) Act 1995***; and

16.3 These are the basic statutory duties imposed on Mr. Valentine Kambori, Acting Secretary for the Department of National Planning and Monitoring and his predecessors.

16.4 As a result of specific responsibilities of the Department given by NEC Decision 251/2005, he also has a duty to ensure and be accountable for at least:

- (a) The formulation of National Development Plans and policies and strategies for medium and long term development with the objective of national unity, basic education and primary health care for all; and
- (b) Management, monitoring and preparation of all development programs and projects and policies to ensure that national development targets are met; and
- (c) The development, management and monitoring of national planning and data and information system at national and provincial level in cooperation with all of government, the private sector, churches and NGO's; and
- (d) The management and coordination of all international development assistance to Papua New Guinea and to ensure that international aid achieves national development objectives; and
- (e) The preparation of regular reports to the National Executive Council and National Parliament on the development status of the nation and on the implementation of development plans and programs.

16.5 Further, the Secretary is accountable for the administration and effectiveness of a number of Statutory Grants and programs including:

- (a) District Support Improvement Program; and**
- (b) Less Developed District Grants; and**
- (c) Special District Development Grants; and**

- (d) District and Provincial Support Grant (Discretionary); and**
- (e) District and Provincial Support Grant (Non Discretionary)**
- (f) District Transport Improvement Program.**
- (g) Special Support Grants; and**

17. THE DEPARTMENT OF NATIONAL PLANNING AND MONITORING

History:

- 17.1 The Department of National Planning and Monitoring has had a number of forms and names in the past. It has grown and shrunk in size and importance according to political whim and NEC directives since 1991.
- 17.2 The Department does not have a statutory basis nor clearly defined statutory purposes, yet has the status of a full Government Department and all the responsibilities that attach to that status.
- 17.3 The role of the Department has remained virtually the same over the years, but successive Governments have meddled with its form apparently without any clear idea of how the Department should be structured or where it should stand in the order of Government agencies.
- 17.4 The Department clearly had functional responsibilities at the national level with its clients being at national, international, Provincial and District level.
- 17.5 The role of the Department was and is still to operate as a planning agency. It was not intended to act as an implementation agency, however recent Governments have reshaped the Department to accept responsibility for the co-ordination, management and implementation of a huge development budget – a task that the Department was never intended or equipped to carry out.

- 17.6 Indeed, the mix of responsibility for setting medium and long term national goals, annual themes and coordination of these into sectoral strategies and a Public Investment Program with the management of a huge development budget, in the opinion of this Committee, may well give the Department a conflict of interest.
- 17.7 It is no longer a dispassionate planning agency, but is now responsible for the success of its own planning or Government policy – a role for which it was never prepared or capable.
- 17.8 It seems to this Committee that the Department has grown in a chaotic and unplanned manner and that powers and responsibilities have been accreted with little forward planning to enable the Department to absorb these responsibilities.
- 17.9 A statement of the history of the Department shows the apparently random nature of Departmental development:

NEC DECISION

STATUS

Decision 183/91	Created Planning Division within the Department of Finance and Planning to coordinate sector initiatives.
Decision 161/93	Established Office of National Planning in Department of Finance and Planning.
Decision 11/95	Separation of ONP from Department of Finance.
Decision 96/95	Established National Planning Office.
Gazettal of 26 th August 1997	Upgraded NPO to Department of National Planning and Implementation.
Decision 6/98	DNP to revert back to the Office of National Planning and

	Implementation under the Department of Treasury and Corporate Services.
Decision 6/99	Established as Department of National Planning and Implementation and as a Central Agency.
Decision 83/99	Name changed to Department of National Planning and Monitoring
Gazette G8 of 27 th January 2000	Established the functional determination of the Department of National Planning and Monitoring.
Decision 70 of 2002	Merger of Office of Rural Development with Department of National Planning into the Department of National Planning and Rural Development.
Decision 251/2005	Separated the Office of Rural Development from the Department of National Planning. The Department now known as the Department of National Planning and Monitoring.

- 17.10 In fourteen years the Department had appeared, disappeared, re-emerged, changed its status from an Office to a Department and back again, been united under a parent Department, removed from that Department, subsumed to another Department, had its name changed five times, received powers and responsibilities, had them removed and then restored again, been united with the Office of Rural Development and then separated, had its own budget and then been deprived of it, received the budget back and been given responsibility for implementation of the National Development Budget.

- 17.11 The Department advised this Committee that it was attempting to reform and restructure itself to meet "future challenges". How it could do anything meaningful in an atmosphere of constant and unpredictable turmoil and change is unknown to this Committee. How it could predict "future challenges" (other than the likelihood that the Department would again be subject to political whim) and prepare for them, was not explained.
- 17.12 There is little surprise in the fact that the Department cannot even control its own internal budget, suffers morale and performance problems, was found by the Auditor General to suffer illegal practices, chaotic management, incompetence and inept performance and generally to be a dysfunctional Department – when, in our opinion, it should be the shining example of efficiency and output for all the Public Service.
- 17.13 This Committee has some sympathy for the officers of that Department suffering constant political meddling for no immediately evident purpose and in particular, for the Officers of the Department who should be restricted to planning as they were initially intended to do – and not the handling of public monies - which they are demonstrably incapable of doing.

Present form and function:

- 17.14 At present, by NEC decision 251/2005, the current broad functional responsibilities of the Department of National Planning and Monitoring are:
- (a) The formulation of national development plans and policies and strategies for medium and long term development with the objective of national unity, basic education and primary health care for all, and opportunities for income earning and upholding the rule of law; and
 - (b) The management and coordination of the preparation, implementation and monitoring of all development programs and projects and relevant policies to ensure that national development objectives and targets are achieved; and
 - (c) The development, management and monitoring of the national planning and appropriate data and information system at national and provincial levels in

close cooperation with all agencies and levels of government, the private sector, churches and non-government organizations; and

- (d) The management and coordination of all international development assistance to Papua New Guinea and to ensure that international assistance achieves national development objectives; and
- (e) The provision of technical assistance and other relevant support and training to relevant agencies and provinces in relation to the above functions; and
- (f) The preparation of regular reports to the National Executive Council and National Parliament on the development status of the nation and on the implementation of development plans, policies and programs.

17.15 Having closely considered these charges to the Department, this Committee concludes that the Department of National Planning and Monitoring is an implementing agency for national development budgets.

17.16 Moreover, the Department is responsible in whole or in part for planning, coordinating and monitoring the application of development policies and funding – including those public monies applied by the Government of Papua New Guinea to development and service delivery – which requires accounting for the handling and application of public monies and property.

17.17 The Department of National Planning and Monitoring administers only four Trust Accounts. These are:

- (a) Population Policy and Development Planning Project Trust Account.**
- (b) European Union Support Program GoPNG Counterpart Trust Account.**
- (c) Nucleus Agro-Enterprises Project GoPNG Trust Account.**

**(d) Skills Development and Employment Project
GoPNG Trust Account.**

17.18 The Department administers or is primarily involved in the administration of the following Statutory Grants or Programs:

- (a) Monitoring and facilitating the issue of Warrants for the **District and Provincial Support Grants (Discretionary)**.
- (b) Monitoring and facilitating the issue of Warrants for the **District and Provincial Support Grants (Non Discretionary)**.
- (c) Overseeing implementation and protecting funding for the **District Transport Improvement Program**.
- (d) Is the guardian of funding for the **Special District Development Grant**.
- (e) Facilitates and implements the **District Support Improvement Program**.

17.19 It is evident that the Department performs a greater role than mere policy formulation and support.

17.20 This Committee with the assistance of the Auditor General, has reviewed the performance of the Department in many areas of its responsibility and the results of that Inquiry are set forth in this Report.

18. THE OFFICE OF RURAL DEVELOPMENT

History:

18.1 The Office of Rural Development was established in 1998 by NEC Decision 169/98 and Gazetted in Gazette Notice No. 990 on the 14th August 1998.

18.2 It became fully operational in 1999 and was tasked to implement the Governments rural development programs.

18.3 The Office of Rural Development was subsumed into the Department of Planning or its incarnations in 2002 until 2005.

- 18.4 In 2005, by NEC Decision 251/2005 the Office of Rural Development was separated from the Department of Rural Development.
- 18.5 Decision 251/2005 made the ORD a line agency under an organizational structure approved by the Department of Personnel Management on the 4th October 2001.
- 18.6 The Office of Rural Development answers to the Secretary of the Department of Rural Development, but largely works separately and apart from that Department – a clumsy and ill thought out arrangement.
- 18.7 This Committee has concluded that relations between the Department of National Planning and Monitoring and the Office of Rural Development are poor with little or no preparation or ability in either entity to work with the other.
- 18.8 While the purpose and function of these entities are different, they have much in common and need to work closely and harmoniously if effective service delivery is to occur.
- 18.9 Insofar as their relationship is concerned, officers of the Department and the Office of Rural Development gave evidence to the Committee as follows:
- " (The) *current relationship between the Department National Planning and Monitoring and the Office of Rural Development is mutual and coherent at the level of supporting the framing and implementation of grants as determined under Section 95 (a) and (b) of the Organic Law on Provincial and Local Level Governments.***
- The functions in terms of development orientation are complimentary, there are three key differences in the range and level of clientele associated with (sic), framework of approach in implementation of functions and programs, and generally the level of operations..."***
- 18.10 This Committee has no idea what this means, but assume it to be an assurance that the two entities work together in a productive fashion.

- 18.11 This Committee decided to investigate the relationship and found a serious breakdown in communication and cooperation between the two entities. This is addressed later in this Report.
- 18.12 Once again, changes and political meddling in the structure and restructuring arrangements has reflected itself in an Office that is unable and ill equipped to meet its obligations.
- 18.13 We conclude that this has resulted in poor service delivery and a serious breakdown in implementing national development budgets, programs and Grants.

Present form and function

- 18.14 The Office of Rural Development exists to formulate, co-ordinate and implement the Government's Rural Development Policies and Programs which contribute to improving service delivery, raising the quality of life and attaining sustainable growth through:
- (a) Effective and efficient support services to Provinces and Districts, harnessing meaningful liaison and coordination with the Provinces, Districts, Service Providers and other Stakeholders in service delivery for development in rural areas; and
 - (b) Develop appropriate and realistic Rural Development policies, providing advice to government on implementation and achievements, ensuring policy compliance and strengthening planning and implementation capacity at Provincial and District level.
- 18.15 This charge is wide and very general, but has been narrowed somewhat by the development of a number of objectives. They are:
- a. To institute a functional regional operation capable of facilitating the Rural Development Programs in electorates of respective regions; and
 - b. To establish and operate an efficient administrative and accounting system in an appropriately automated office supported by adequately trained and experienced staff; and

- c. To improve and strengthen the capacity of the Office;
and
 - d. To provide technical and other advisory assistance and support to Members of Parliament, Provincial and District administrations; and
 - e. To ensure policy and procedural compliance; and
 - f. To achieve timely distribution of Rural Development Funds, monitor and report on project implementation and perform project impact evaluations; and
 - g. To assist provinces and districts in the formulation and implementation of Five Year Development Plans; and
 - h. Develop appropriate policies for rural development in PNG; and
 - i. To assist Provinces and Districts in capacity building; and
 - j. To develop, institutionalize and advise on rural financing schemes; and
 - k. To provide engineering and other infrastructure related support; and
 - l. To facilitate awareness programs.
- 18.16 To further complicate the functions of the Office of Rural Development, that Office is responsible for the management in whole or in part of the following statutory grants or other programs:
- **District Support Grant**
 - **Provincial Support Grant**
 - **District Transport Infrastructure Improvement Program**
 - **Special District Development Grant**

- 18.17 At present, the Office of Rural Development does not maintain any Trust Accounts.
- 18.18 Most significantly, this Committee is advised by the Office of Rural Development that the Budget of the Office was subsumed into the Department of National Planning and Monitoring in 2004 and, despite the fact that the Office of Rural Development is now partly separated from that Department, the Budget remained (as at the time of this Inquiry) within the control of the Secretary for National Planning and Monitoring.
- 18.19 Clearly the Office of Rural Development has a huge part to play, on many fronts, in National development, rural development and service delivery.
- 18.20 It is clear to this Committee that the Office of Rural Development is an implementing agency for national development budgets and thereby is responsible for the handling and application of public monies.
- 18.21 The citizens of Papua New Guinea are entitled to expect an Office that is properly funded, staffed by expert and energetic officers which is highly geared to provide quick and specialized support and performance.
- 18.22 The Committee had regard to assessments of the Office of Rural Development by the Office of the Auditor General for the period 2000 – 2005 including a specialized audit of Procurement Practices and procedures which encompasses Office systems, relations, data management and general performance.
- 18.23 The picture which emerges from those Reports is an Office that has trouble managing its own budget lawfully and properly – much less a huge development budget – and which does not have the capacity or competence to fulfill the very large and important duties vested in it by Government.
- 18.24 This Committee does appreciate that the powers, duties and the form of the Office of Rural Development have developed in a haphazard way and assumes that this process has not assisted either the competence or the morale of officers serving in the ORD.

18.25 However, the Reports of the Auditor General and the experience of members of this Committee suggests that there may be further deep rooted and serious problems within the Office

18.26 Accordingly, this Committee resolved to consider the Office of Rural Development and its performance in respect of the handling of public monies and management of funds targeted for development and service delivery over the last five years.

19 REPORTS AND FINDINGS OF THE OFFICE OF THE AUDITOR GENERAL.

19.1 The Committee had regard to the following Reports of the Office of the Auditor General:

- (a) Report on the Final Audit of the Department of National Planning and Monitoring 2001.
- (b) Report on the Final Audit of the Department of National Planning and Monitoring for the year 2002.
- (c) Report on the Final Audit of the Department of National Planning and Monitoring for the year 2003.
- (d) Report on the Final Audit of the Department of National Planning and Monitoring 2004.
- (e) Report of the Final Audit of the Department of National Planning and Monitoring 2005.
- (f) Special Audit of Procurement Processes and Procedures in the Department of Planning and Monitoring 2005.
- (g) Report on the Final Audit of the Office of Rural Development for the year 2000.
- (h) Report on the Final Audit of the Office of Rural Development for the year 2001.
- (i) Report on the Final Audit of the Office of Rural Development for the year 2002.

- (j) Report on the Final Audit of the Office of Rural Development for the year 2003.
- (k) Report on the Final Report of the Office of Rural Development for the year 2004.
- (l) Report on the Final Audit of the Office of Rural Development 2005.
- (m) Special Audit of Procurement Processes and Procedures in the Office of Rural Development 2005.

- 19.2 The Public Accounts Committee also had regard to Management Letters sent by the Office of the Auditor General to the Department of National Planning and Monitoring for the years 2000, 2001, 2002, 2003, 2004 and for a Special Audit on Procurement in 2005.
- 19.3 The Public Accounts Committee directed the production of all Departmental responses to these Management Letters and, where these were produced to the Committee, had careful regard to their contents.
- 19.4 The Public Accounts Committee also had regard to Management Letters sent by the Office of the Auditor General to the Office of Rural Development for the years 2000 – 2004 inclusive.
- 19.5 The Public Accounts Committee directed production of all responses by the ORD to these Management Letters and, where they were produced to the Committee, had careful regard to their contents.
- 19.6 The Public Accounts Committee also had regard to a Report prepared by Deloitte Touche Tohmatsu recording a reconciliation of the 2000 and 2001 District Development Program Fund appropriations.
- 19.7 The Public Accounts Committee sought copies of any response made by the Department of National Planning and Monitoring and/or the Office of Rural Development to that Special Audit.
- 19.8 In summary, the Audit Reports of the Department of National Planning and Monitoring for the period 2002 – 2004 inclusive,

concluded that the Department of National Planning and Monitoring has failed in a number of important areas – and those failures continued unaddressed to 2004 with seemingly no improvement in performance.

- 19.9 This Committee finds that those failings continue to the present day.
- 19.10 In further summary, the Report of Deloitte Touche Tohmatsu concerning the administration of the District Development Program Fund for the years 2000 and 2001 found serious and long standing failures within the Department and the Office of Rural Development to record or account for the DDP Fund.
- 19.11 The Committee was concerned to ascertain if and how those failures had been addressed since 2004 when the report was made.
- 19.12 The Committee also considered a Report of the Office of the Auditor General on a Special Audit of Procurement Procedures which included the Department of National Planning and Monitoring and the Office of Rural Development among a number of other Departments and arms of Government.
- 19.13 The Audit found defects in practices and systems and made a large number of recommendations to remedy these problems within the Department of National Planning and Monitoring and the Office of Rural Development.
- 19.14 This Committee was concerned to be told by the Auditor General that, in regard to the 2005 Report on Procurement Practices, Officers of both the Department of National Planning and Monitoring and the Office of Rural Development refused to cooperate or to attend meetings with the Auditor General and, in fact, walked out of the scheduled exit meeting.
- 19.15 As we have already stated, this recalcitrant attitude was displayed to the Auditor General in the course of audit work and to this Committee during its Inquiry.
- 19.16 When Committee questioning delved into specific areas or examples of misconduct or administrative failure, the Heads of the Department of National Planning and Monitoring and of the

Office of Rural Development simply absented themselves from our Inquiry.

- 19.17 The explanation for this attitude can only be that the Officers have no answers to problems or failures or that they have something to hide and would rather be prosecuted for failing to appear than for what their evidence might reveal.
- 19.18 In light of the evidence from the Auditor General's officers to this Committee, we think that the latter explanation is the truth.
- 19.19 Mr. Geoff Hamilton, of the Office of the Auditor-General, told this Committee that Officers of both the Department and the Office of Rural Development refused to attend or to remain in attendance at interviews because, as they stated to him :

"..we do not want to incriminate ourselves".

- 19.20 This extraordinary statement strongly suggests that there was and is malpractice in both the Department and the Office of Rural Development, as stated by the Office of the Auditor General in its report into Procurement practices, and that these practices are known and tolerated – as was concluded by the Auditor General.

20. THE INQUIRY.

- 20.1 The Public Accounts Committee split the Inquiry into two parts.
- 20.2 The first part considered the Reports of the Office of the Auditor General into the Department of National Planning and Rural Development (as it then was) and the Office of Rural Development and a reconciliation by Deloitte Touche Tohmatsu of the 2000 and 2001 District Development Program Funds.
- 20.3 The Committee intended to investigate the failings of the Department and the Office of Rural Development identified in those Reports and ascertain what steps had been taken to address them.
- 20.4 The second part of the Inquiry was intended to consider the ability of the Office of Rural Development to manage, implement and oversee development projects or Programs and,

thereby, to make an assessment of the capacity of both the Department and the Office to fulfill their functions.

- 20.5 There is clearly a deal of confusion as to the exact function and purpose of both entities. Members of the Committee expressed difficulty in understanding the two entities and that uncertainty clearly extends to the public at large.
- 20.6 One thing that was clear to all Members of the Committee was that the Department of National Planning and Monitoring and the Office of Rural Development were responsible for administering very large amounts of public monies and managing, planning, coordinating, implementing and accounting for development and service delivery down to District level.
- 20.7 Equally clear to all Members was the manifold failures to deliver services that are budgeted and paid for by Government.
- 20.8 The Committee was concerned to know what degree of responsibility – if any – should be accepted by these two senior line agencies for that failure and the reasons for those failings.
- 20.9 The Reports of the Auditor General and Deloitte Touche Tohmatsu revealed serious findings of defective and unlawful conduct and incompetence in both entities.
- 20.10 These Reports were carefully studied by all members of the Committee before the Inquiry commenced.
- 20.11 The Committee resolved to question Officers of the Department of National Planning and Monitoring and the Office of Rural Development who appeared before this Committee as witnesses and give every possible opportunity for those persons to explain or correct information obtained by the Committee.
- 20.12 The Chairman of the Public Accounts Committee summed up the intention of the Committee thus:

"The Department of National Planning & Monitoring holds tremendous power in this country and with that power comes a high degree of responsibility for a

professional and honest and competent performance by Executive Managers.

This Committee will make a judgment as to whether those standards had been met when all the material is delivered to it.”

21. PART 1 OF THE INQUIRY – REPORTS OF THE AUDITOR GENERAL ON THE DEPARTMENT OF NATIONAL PLANNING AND MONITORING.

21.1 The Committee considered the Reports of the Auditor General into the Department of National Planning and Monitoring for the years 2001 – 2005 inclusive and a Special Audit of Procurement Processes and Procedures.

Report of the Auditor General on the Department of National Planning and Monitoring 2001.

21.2 The Audit Report for 2001 showed a Department that has entrenched problems in managing and accounting for its own Departmental Budget.

21.3 The Report also shows that in 2000 the Department underspent its Budget by a staggering 69.91 %. The Department received K 76,330,000 but managed to spend only K 26,020,000.

21.4 This means that public monies earmarked for development never left the Department because, as subsequent Audit Reports showed, the Department had no capacity to manage, oversee, implement or apply a Development Budget.

21.5 This Committee has long considered that successive Governments have provided adequate and properly targeted Development Budgets which, if they were ever properly implemented, would give meaningful assistance to our people.

21.6 Yet we see no services even in Districts close to major urban centers – and the situation in our remote areas is pitiful.

21.7 A large part of the problem lies in Waigani where Public Servants have proven themselves unequal and unwilling to quickly and fully activate political decisions.

- 21.8 The underspending by the Department of National Planning and Monitoring will be more fully addressed later in this Report, but is an example of this inability which the Committee has noted in this and other Inquiries.
- 21.9 Clearly the Department of National Planning and Monitoring had, prior to 2001, demonstrated problems with accountability for its own internal Budget.
- 21.10 The Auditor General reports unresolved matters from 2000 and this pattern of known but unresolved matters continues to the time of the Inquiry in 2006.
- 21.11 This Committee concludes that the Department has no capability or will to address adverse Audit findings that are repeated year after year.
- 21.12 The Committee and the citizens of Papua New Guinea could, quite properly, ask how a Department that cannot manage its own finances according to Law can be expected to manage a huge Development Budget with any degree of efficiency or competence.
- 21.13 In 2001, the Auditor General found the following serious defects in the management of and accounting for public funds in the Department of National Planning and Monitoring:
- Bank reconciliation statements dating back to 1999 that had not been investigated, cleared and adjusted. This basic failure continues to the present day; and
 - Irregularities in the management of Trust Accounts; and
 - Documents recording payments from Trust Accounts were not produced for audit; and
 - There were problems with commitment control. Expenditure Reports from the Department conflicted with Expenditure reports from the Department of Finance in a sum of K 6,935,639; and
 - The Auditor General found serious non-compliance with prescribed procurement and payment procedures. This

feature of Departmental performance continues unaddressed to the present day and is considered later in this Report; and

- Serious failures to acquit travel advances were identified. In one instance, K 147,270 was paid to two officers as a cash advance but no record of the distribution of these advances – or any other matter - was provided; and
- Irregularities in payroll administration; and
- Failure to record or acquit advances; and
- No internal audit unit – this basic failure continues until the present day; and
- Considerable weaknesses in internal controls; and

21.14 The Auditor General identifies and records the same very basic problems and failings in all subsequent Reports.

Report of the Auditor General on the Department of National Planning and Monitoring 2002.

21.15 The Committee considered the report of the Auditor General for the year 2002.

21.16 The Auditor General found the following serious defects in management of and accounting for public monies within the Department:

- Bank reconciliation statements revealed a failure to record approximately K 6.1 million.
- Bank statements and cash books for the Drawing Account showed overdrawn balances in a sum of K 8,967,774.
- Departmental Expenditure Reports do not agree with Waigani Public Accounts Reports.
- Expenditure statement of the Department revealed expenditure in excess of warrant authorities.
- Funds totaling K 73,813,200 were not expended at all.

- A difference of 21 staff over the establishment level of 104 staff was detected
- There was no register of staff.
- Staff had been overpaid by K 40,722.
- The salary of a terminated Secretary was still being paid.
- A total of 215 cheques were paid to staff as special pays – a total of K 231,833.70.
- Special pay Advices had not been recorded in personnel files.
- Advances of K 255,183 were unacquitted.
- 9 officers were paid advances whilst their earlier advances were unacquitted.
- Delays of 11 – 87 days were noted in the acquittal of advances. This is a breach of the ***Financial Instructions***.
- 24 advances totaling K 226,708 recorded as acquitted were not supported by any documentation.
- 19 instances of expenditure in a sum of K 279, 040 were erroneously charged to incorrect expenditure vote items in order to conceal unbudgeted expenditure.
- There were 21 instances of hire of motor vehicles with no competing quotes.
- Lease agreements were not made available to the auditors.
- There was no evidence at all of acquittal of cash advances.
- There were no reports concerning the result of travel.
- K 588,783 was incurred for District workshops held in Provinces – but there was no approved written submission(s).

- Payment for travel and accommodation were made on the basis of fax copies of pro forma invoices.
- K 289,900 was advanced to officers for travel but was not acquitted.
- An amount of K 1000 cash advance for Police escort is not acquitted.
- K 200 cash advance made to the Secretary for attending a funeral is not acquitted.
- K 8,800 of K 16,585 incurred for a funeral has not been acquitted.
- K 400,000 paid to the Institute of National Affairs has not been supported at all by accountability statements.
- K 94,395 paid to FKPY Construction was made without compliance to the Tender processes, no design or plan can be found, there was no checking of work specifications and no work completion certificates were given to the auditor.
- A total of K 6.804 million was paid in Grants. However, the auditor could not find any documentation or records and could not establish whether the funds were utilized for their designated purpose.
- Consultancies totaling K 1,214,914 had no proper documentation, were wrongly approved, overpayments were detected, as were advance payments.
- Trust Account records and accounts were not made available to the Auditor.
- 25 journal entries were not certified or verified by a competent officer.

21.17 The Auditor General states that the majority of these matters were highlighted in 2001 and earlier reports, but remain unresolved by the Department.

- 21.18 This Committee notes that the Department of National Planning and Monitoring received a Management Letter pertaining to this Report but did not respond to it until September 2005.
- 21.19 That response made some explanation for the more minor failings, but offered no excuse for the more serious matters identified by the Auditor General.
- 21.20 The attitude of the Department toward the Auditor General was one of disinterest and unhelpfulness. Records were not produced and failings were met with glib assurances that the matters of concern would be addressed – but they never were.
- 21.21 This attitude continues to the present day. It is well illustrated in the Departmental response to the special audit into Procurement processes – see Para. 23 (infra).

Report of the Auditor General on the Department of National Planning and Monitoring 2003.

- 21.22 The Department of National Planning and Monitoring was directed by this Committee to produce copies of all Management Letters from the Auditor General and the Departmental responses thereto for the years 2002 – January 2007 inclusive.
- 21.23 The Department could not find any Management Letter or Departmental response for the year 2003.
- 21.24 There was no adequate explanation for this failure and the Committee concludes that the documents simply could not be found within the Department.
- 21.25 The inability to locate such important documents was consistent with the emerging picture of a mismanaged and chaotic Department which saw itself as unaccountable to this Committee – or to any other entity.
- 21.26 The Report of the Auditor-General on the then National Planning Office for the year 2003, was completed in November 2005.
- 21.27 Of all the findings, the most serious was recorded at page 99 of the Report. There, the Auditor General found that the

Department had underspent its Development Budget by a huge K 144,187,000.

- 21.28 How this occurred is unknown. The Department witnesses appeared to shrug off this miserable performance as if it was not a matter of importance.
- 21.29 Moreover, the Department could not or would not produce the Departmental Management Letter or the Departmental response to the Auditor General in this regard.
- 21.30 The Committee notes that this fact of under-expenditure of monies is a recurring feature of Departmental performance.
- 21.31 No adequate explanation was made to this Committee for those failings in any year, but the Committee notes with concern that the amounts of under-expenditure have (with one exception) increased every year from 2000, in the following amounts:

2000

Underspent K 50,310,000 or 69.91% of Budget.

2001

Underspent K 55,140,000 or 42.88% of Budget.

2002

Underspent K 99,811,000 or 78.72% of Budget.

2003

Underspent K 144,187,000 or 64.23% of Budget.

2004

Underspent K 38,107,000 or 13.82% of Budget.

2005

Underspent K 142,999,000 or 40.49% of Budget.

21.32 This Committee considers the matter of under-expenditure and the Departmental explanations at Paras 22.71 – 22.78 et seq.

21.33 The 2003 Report of the Auditor General on the Department makes the following critical findings:

- Monthly Bank Reconciliation Statements were not prepared for the **entire year**. Audit verification of these records could not be carried out.
- Audit verification and analysis of commitment controls and expenditure statements was not possible, because vital source documents comprising cash fund certificates and expenditure statements were not available and were not produced despite requests from the auditors.

This Committee regards this failure to keep or produce basic records as very serious.

- The Department failed to comply with procurement and payment procedures. A random examination revealed:
 - Paid vouchers to a value of K 1,016,484 were missing.
 - An amount of K 50,080 paid as a Cash Advance for duty travel was unsupported by any documents at all.
 - Three quotations were not obtained for the acquisition of computers.
 - Payments totaling K 1,000,000 were made to a company for maintenance of roads in Mendi but were unsupported by any valid contract, any tenders Board documents or records or any reports on the work.

This Committee observes that payments in the absence of any documentation at all is a characteristic of this Department, the Office of Rural Development and the abuse of Trust Accounts within and by the Department of Finance.

At best, this clear pattern of failure is suggestive of incompetence and cavalier disregard for the requirements of Law.

At worst, it is consistent with corrupt and criminal conduct by Departmental Officers.

- Payments totaling K 1,100,000 were made for the provision of school materials for the Southern Highlands and North Solomons. The Auditor General could find no records, documentation, invoices, tender approvals, contract or proof of delivery of any equipment at all.
- Two payments totaling K 1,500,000 were made to a contractor. The nature of and reasons for the payments are unknown as there was no documentation at all in the Department.
- The Auditor General identified many other instances of excessive spending, payments in the absence of records or documentation and a general lack of control which was described by the Auditors as:

" Non compliance with procurement and payment procedures".

- Weaknesses in the maintenance of advances to staff.
- An incomplete and inadequate Asset Register.
- Most concerning to this Committee was a finding of irregularity in the management of Trust Accounts. Once again a Department of State seems unable to understand the nature of a Trust Account or the obligations of accountability that such an arrangement imposes on the Officers of the Department responsible for the management of and accounting for the Trust Account.

- The Department did not maintain a Losses and Deficiencies Register. The Auditor General could not undertake an examination of losses and deficiencies.
- The Auditor General found significant weaknesses in internal control. These included:
 - Paid vouchers not produced or apparently kept.
 - Required quotations not sighted.
 - Missing information.
 - Stocktakes not carried out.
 - No casual employee register.
 - No internal audit – this is a matter of significant concern.

21.34 The Auditor General identified outstanding matters for previous years that had not been attended to. These were:

- Weaknesses in the preparation of Bank reconciliation statements.
- Irregularities in the maintenance of Trust Accounts
- Non compliance with procurement and payment procedures
- Shortcomings in commitment control
- Non acquittal of advances
- Irregularities in payroll administration
- Non existence of internal audit function, and
- Weaknesses in internal control.

21.35 The same problems and failures continued despite having been identified in the past. The Department showed no ability to, or interest in, fixing the defects and we conclude that

management are simply devoid of any idea or plan to correct these entrenched failures.

Report of the Auditor General on the Department of National Planning and Monitoring 2004.

21.36 The Committee considered the report of the Auditor General for the year 2004. The report contained findings of serious defects in management of and accounting for public monies, within the Department.

21.37 The more serious findings for 2004 were:

- The monthly bank reconciliation statement for the Department Drawing Account No. 4311-6561 was not prepared for the **entire year** under review. It was therefore not possible to carry out an Audit scrutiny of the operations of the drawing account.

The Auditor General concludes there is "***a serious breakdown***" of internal control over funds management.

- An examination of the Expenditure Vote Summary maintained by the Department of National Planning & Monitoring with the Expenditure Statement produced by the Department of Finance reveal significant variances of **K279,188,705** (our emphasis) in the total expenditure balance. This Committee regards this result as very serious.
- Expenditure Statement produced by the Department of Finance shows expenditures in excess of warrant authorities amounting to K 20,531,866. This is a massive over-expenditure and a matter of serious concern.
- Very large payments were made to contractors or consultants with no documents in place. There was no signed copies of engagement contracts, no decisions of the Provincial Supply & Tenders Board, no certified work in progress/status reports and the Auditor could not validate and justify the payments.

- An amount of K 778,395 was paid to Tried Pacific Limited for supply of school materials for the Southern Highlands Province for the 2003 school year. The Auditor could find no particulars of materials supplied, no quantity of material supplied, no total cost of each item and no other costs such as freight etc.
- Improper payments with no supporting documents were identified.
- Very large payments for ministerial travel were made with no supporting documentation, no invoices and no itineraries.
- The Auditor found that payments totaling K 3,690,000 paid to various organizations did not have genuine supporting documents.
- A payment of K1 million to a landowner group for outstanding Special Support Grants for previous years were identified. Analysis of the expenditure report disclose that the ledger vote had a negative variance of K 1,099, 977 or over-expenditure in that sum on this vote alone and there was no supporting documentation.
- Moneys were used from recurrent expenditure budgets to fund trust accounts for Nucleus Enterprise Project, Agro Industries Development Program and others.
- Audit verification of the relevant pay vouchers reveal that necessary "checks and balances" do not exist between the sources of the funds and use of these funds.
- Expenditure or acquittal reports were not submitted to the Audit Department and the Department therefore does not know and has no control over the funds released to trust accounts.
- K 9,850,023 has been released between four trust accounts with no records.
- Further payments to Consultants were identified with no details of contract agreement, no approval of the

Consultancy Steering Committee of the Department of Personnel Management & Attorney General's Office and no particulars of work performed.

- Advances were given whilst existing advances were un-acquitted.
- Certain documents were not made available to the Auditor although they were sought. These were trust instruments, monthly bank reconciliation statements, bank statements, cheque butts, cheque books, paid vouchers, minimum deposits and signatories to bank accounts. This is a serious violation of the **Audit Act** and the **Public Finance (Management) Act**.
- The Auditor identified 143 staff against the Departmental staff ceiling of 108.
- There is over-expenditure in relation to salaries and allowances of K 523,188.
- The Auditor General noted breaches of the **Public Finances (Management) Act** relating to the recruitment and employment of casual workers.
- 13 of the 34 casual workers were held against positions not listed or contained in the approved Departmental structure.
- 7 employees failed to lodge a Salary or Wage Tax Declaration Form.
- No response was received to a Losses and Deficiencies questionnaire issued to the Department.

This list is not exhaustive.

- 21.38 In summary, the Auditor General found the same defects which had been identified in past years, repeated in 2004.
- 21.39 This Committee concludes that Departmental record keeping and accountability are ineffective and this situation cannot be allowed to continue.

- 21.40 It has become apparent to this Committee that, as the Office of the Auditor General has strengthened and intensified its Audits in the last three years, the level of cooperation by Departments has fallen away.
- 21.41 Again and again we have seen Departments and Governmental entities refuse to assist the Auditor General.
- 21.42 This contemptuous disregard for legal obligations goes unpunished and unremarked.
- 21.43 It is clear to us that the reason for this failure to cooperate is the existence of widespread corruption, incompetence and unlawful practices in Public Administration and the Department of National Planning and Monitoring is no exception.
- 21.44 The Auditor General found in 2004 and 2005, widespread acknowledgement of these practices within the Department of National Planning and Monitoring.
- 21.45 We have no doubt that the Departmental Officers decided to frustrate the Auditor General by active non cooperation and this Committee will make certain referrals in this regard.
- 21.46 The Auditor General identified the following deficiencies that had not been remedied or resolved from the 2003 report – and, we find, for many years before that:
- Weaknesses in preparation of Bank reconciliation statements.
 - Irregularities in trust Account maintenance.
 - Non-compliance with procurement and payment procedures.
 - Shortcomings in commitment control.
 - Non-acquittal of advances
 - Irregularities in payroll administration; and
 - Weaknesses in internal control.

21.47 The Department made its response to the 2004 Audit on the 14th November 2006.

21.48 The responses to findings of failures (many of which had continually been identified for years) were little more than glib assurances that the problems were noted and would be addressed.

21.49 The following is a random sample of those responses:

- ***"The Department acknowledges the significant variances observed between the Department of Finance Expenditure Statement and its printout and will attend to it"***

Page 1 Para 2.1 Response.

- ***"The audit finding on the lack of documentation is noted. The Department will improve in future on this"***

Page 2 Para 3.2 Response.

- ***"The Department acknowledges that there is a serious weakness in accounting documentation and advises that this will improve."***

Page 3 Para. 3.5 Response.

- ***"The Department acknowledges the audit finding of over expenditure as per Department of Finance Expenditure Report and lack of supporting documentation for the K 1,000,000 paid. The Department will improve in ensuring relevant accounting documents are kept or made available for any development project expenditure."***

Page 3-4 Para. 3.6.1 Response.

- ***"The trust accounts are kept by the respective projects. The Department will look into improving trust accounts."***

Page 5 Para. 5.0 Response.

- ***'The Department acknowledges the audit work done and appreciates the findings made. It will definitely improve in areas noted in audit and other areas currently weak in its financial administrative operations.'***

Page 8 Para. 8.0 Response.

21.50 It is clear to this Committee that the Departmental management does not understand the problems, has no capacity, plan, will or intention to address the shortcomings – all of which, we think, constitute breaches of the ***Public Finances (Management) Act 1995*** and many of which are an open invitation to corrupt practices.

21.51 Such failings would not be accepted in a minor department or arm of Government. That such a miserable picture is found in a senior Department managing a huge National responsibility, is completely unacceptable.

Report of the Auditor General on the Department of National Planning and Monitoring 2005.

21.52 In 2005 the Office of the Auditor General performed a very detailed and searching Audit of the Department of National Planning and Monitoring.

21.53 The Auditor General developed a methodological framework for the evaluation of the efficiency and effectiveness of processes and procedures in relation to:

Finance and cash Flow/Budgetary control;

Procurement and Payment Procedures;

Salaries and personal emoluments;

Capital assets;

Motor Vehicle Fleet; and

Internal Audit.

21.54 In particular, the Auditor General analysed whether:

- In relation to the above items the processes and procedures adopted by the Department are in compliance with relevant legislation and government policy;
- Sound management principles and practices are applied; and
- Whether the senior management has exercised good corporate governance over the operations of the Department.

21.55 This is the first time, to the knowledge of this Committee that such a deep inquiry has been made into any Government Department by the Office of the Auditor General.

21.56 The Report of the Auditor General on the Department of National Planning and Monitoring for the year 2005 identified profound problems and failures.

21.57 The summarized findings are very serious and clearly show a dysfunctional and incompetent Department insofar as management of either its own finances or management of Development Grants and Programs are concerned.

21.58 We recommend that every member of this Parliament read the following summation of the 2005 Report of the Auditor General on the Department of National Planning and Monitoring. The findings were:

- Management demonstrates poor attitude to controls which facilitates irregular activity; and
- The lack of a planning process and assessment of risks has left the agency in such a position that it may not be prepared for sudden changes in the external environment; and
- The budgetary process does not follow accepted practices and is not appropriate for a central agency; and

- Management of procurement does not provide reasonable safeguards or assurance that the processes that are in place are adequate to safeguard the assets of the State.
- There is deliberate non compliance with the legislative requirements for procurement; and
- There is no risk assessment at all of the apparent lack of skills associated with contract management; and
- The corporate plan has not been circulated and is defective in any event; and
- Not all Divisions have an operational plan; and
- Management controls have been deliberately overridden – this is a sure sign of illegal activity; and
- Management controls that do exist, are inadequate to ensure obedience to Law; and
- No review of control processes has been undertaken; and
- Widespread abuses and failures were found in the processes and practices associated with procurement; and
- There are no timely or supervised reconciliation statements prepared by the Department; and
- There is no reconciliation of its expenditure records against the Department of Finance – and this has been the case for years; and
- A clear picture emerged of a Department that has no ability to carry out its function – even to basic matters like contract supervision;
- There is no working relationship between the Department of National Planning and the Office of Rural Development – indeed the Auditor General found widespread mutual dislike and suspicion between these two entities.

21.59 These are serious and basic matters.

- 21.60 This Committee has seen identical failings in the Department of Finance, management of Trust Accounts, the Department of Lands and Physical Planning, the national Museum and Art Gallery and (as we will address in this Report) the Office of Rural Development.
- 21.61 We find a continuous refusal to address these matters by senior Public Servants and a failure by Government to force change.
- 21.62 These Departments are the crucial links in turning development policy into practice – and they have failed to do so for years.
- 21.63 The net result of this failure is reflected in our Districts.
- 21.64 Few services flow to our people because the Public Service Departments fail or refuse to act lawfully and ethically and fail to understand the crucial role that they play in national development – and fail to fulfil that role.
- 21.65 No services flow to our people because the money rarely leaves Waigani, and what does leave Waigani is diverted, uncontrolled, unmonitored and very often misspent.
- 21.66 This failure is not sustainable and must be addressed.

The attitude of the Department to the 2005 Report of the Auditor General

- 21.67 This Committee finds two matters that clearly illustrate failures and a willingness to cover up or hide those failings by the Department of national Planning and Monitoring.
- 21.68 The first is found in the responses of the Department to findings by the Auditor General and the second is found in the level of non-cooperation with the Auditor General and with this Committee.
- 21.69 The first appears at Page 122 of the Report of the Auditor General for 2005.
- 21.70 There, it is reported that the Department of National Planning and Monitoring in the year ending 31st December 2005 incurred

a net under expenditure of **K142, 999, 000** (our emphasis) – 40.49% of the Department's Development budget for the year.

21.71 We fully expected an immediate and full analysis by the Department and a candid response to this appalling finding.

21.72 Instead, the Response from the Department was simply:

" The observation is noted"

Page 4 Para 2.2 - Response dated the 14th November 2006.

21.73 The Auditor concludes:

" A selection of under expenditure vote items above K 10,000 disclosed that 40 items had incurred under expenditure of K 172,708, 318 (our emphasis).

"The under utilization of funds by the Department underlies a serious management problem that needs to be addressed by the Department. The indication that the case highlights is that –

a) The Department may not have the capacity to implement programs and projects that have been budgeted for.

b) The Management has failed in its responsibility to ensure that funding is provided for activities and projects for which the Department had budgeted are actually carried out and implemented."

21.75 The Department responded to that finding in the following way:

"The Management will institute appropriate internal control measures to ensure no under expenditure.

The lack of capacity is an issue but will be addressed through recruitment which is in progress, but it should not be the reason for under expenditure."

- 21.76 The Committee finds that this response was totally inadequate and did not begin to address the problem found by the Auditor General.
- 21.77 The Committee, in its Inquiry, sought an explanation for the under expenditure from the Secretary for the Department of National Planning and Monitoring in the Inquiry.
- 21.78 The question and answer was:

"Hon. Dr. Bob Danaya MP

Mr. Secretary your response to the Auditor General is simplistic and contains no explanation for this under expenditure. This is a lot of money. Why did it occur?

We ..(are)..talking about under expenditure of K 146, 862, 000 – almost 50% of the Departmental Budget. How did that happen? That is a lot of money.

Mr. Valentine Kambori

....If audits found this, we have a peculiar item in the development budget which are the non cash items those that are related mainly ..(to).. the donor programmes that we sign up with and for fiscal accountability for fiscal alter and purpose they are affected in the budget but are not actually cashed I mean in the system.

They are done through the State agreeing with donors where they are managed through those...and they are affected through fiscal purposes so that we have a fiscal accounting and not a financial actual accounting. It is mainly to do with grants and loans.

We have a number of issues to do with the draw down of loans and draw down of grants and the main reasons have been, one, since the Central Bank.....non-cash items those that are relating to donor programs that we sign up with and for fiscal accountability for fiscal outcome and purposes they are effected in the budget but are not actually cash that come into the system. They are done through the States agreement with

donors where they are managed through those but they are affected through fiscal purposes so we have a fiscal accounting not an actual cash accounting. And its mainly to do with loans and grants.

We have had a number of issues to do with draw down on loans and grants and the main reason has been that Central Bank Act was changed and the Central bank – Deputy Chairman, we might give a more detailed view on this because there is a whole lot of or a number of issues related here – when the Central Bank Act was changed, unless the Auditor General specifies exactly what this is, the Central bank would either agree to or not agree to collateralise any sovereign borrowings or any programs that are in the budget. With Asian Development Bank we had three programs that came to us because the Central Bank would not give them a negative pledge.”

Pages 33 – 34 Transcript of Inquiry 15 February 2007.

- 21.79 We have quoted this meaningless evidence at length, because it illustrates the fact that the Head of Department has no answers for its failure and, clearly, has not considered the finding of the Auditor General, nor understood it.
- 21.80 Worse still, Departmental management are quite prepared to tolerate and attempt to justify this failure.
- 21.81 The Committee sought clarification on the under expenditure from the Auditor General. The following evidence was received:

Hon Dr. Bob Danaya MP

Auditor General, what is your opinion regarding this particular matter here? Are you satisfied with the reasons that the Secretary has given for the under expenditure and does the problem still exist in the Department?

Mr. Thomas Holland (Officer of the Auditor General).

We have on record actual warrants to have been issued so we are dealing with cash when we talk about this.

Warrants have been issued so obviously we are talking about cash, actual cash.

Dr Bob Danaya MP

How much cash?

Mr. Thomas Holland

The money which was supposed to be spent but which was not spent.

Dr Bob Danaya MP

In cash?

Mr. Thomas Holland

Well, yes, its been budgeted for.

- 21.82 The Committee directed the Secretary of the Department of National Planning and Monitoring to produce a written explanation for the under expenditure.
- 21.83 Nothing has been received.
- 21.84 This failure to comply with a directive of this Permanent Parliamentary Committee well illustrates the indifference and incompetence that characterizes this Department and its management.
- 21.85 K 146,862,000 is a huge amount of money and a significant part of the annual development budget. Where has it gone? Why was it underspent? What should it have been used for?
- 21.86 These basic questions are unanswered because the Departmental management has decided not to co-operate with this Committee or with the Auditor General.
- 21.87 The Committee is concerned by the clearly apparent refusal of the Department of National Planning and Monitoring to cooperate with the Auditor General by producing records and accounts required by the auditors.

21.88 At Page 124 of his 2005 Report, the Auditor General states:

" Withholding of records and documentations for audit purposes:

- ***Audit review and appraisal of Salaries and Wages was not undertaken in the absence of records and documentations requested;***
- ***Audit review and appraisal of Grants and Subsidies was not undertaken in the absence of records and documentation requested;***

This Committee regards this failure with particular concern. The Department exists to apply these monies for the betterment of our people. Yet it refuses to assist an independent audit of these public monies and deliberately withholds vital records and documents.

This raises very grave suspicions as to the quality of Departmental honesty, competence and transparency.

The Auditor General further reported:

- ***Audit review and appraisal of the management of Trust Accounts administered by the department was not undertaken in the absence of registers, records and documentations requested; and***
- ***Audit review and appraisal of the management of advances by the department was not undertaken in the absence of registers, records and documentations requested; and***
- ***No loss register was produced; and***
- ***There was no internal audit unit.***

21.89 This Committee considers that the failure to produce records or documents to the Auditor General is a sure indication that either the contents of those documents would have led to an even worse Audit Report – or that the documents do not exist at all.

- 21.90 No matter which scenario is correct, both are breaches of Law.
- 21.91 We conclude that the Departmental managers would rather be prosecuted for failure to assist the Auditor General than reveal the contents of the records.
- 21.92 The fact of these failures is bad enough, but for a Department to actively hide or obscure its failings, is a matter for real concern by this Parliament.
- 21.93 After all, we are not dealing with a minor or obscure arm of Government but the central implementer of policy and development monies – a Department by whose performance Governments and members of the National Parliament are judged by our people and by the international community.
- 21.94 We all have the right to demand that such an agency be completely effective, transparent and accountable.
- 21.95 In his Report for 2005, the Auditor General further finds that:
- ***The Department did not observe internal control procedures in the procuring of goods and services to a value of K 2,738,600;***
 - ***Financial delegate signatures were not verified on the requisite general expense form;***
 - ***A competent examiner had not authenticated the respective claims;***
 - ***In 22 instances totaling K5,297,360.60 payment vouchers and respective supporting documentation could not be located and therefore could not be audited.***
 - ***This Committee notes that amongst those payments were such things as Ministerial airfares, accommodation and hire car, Christmas party at a cost of K30,000, financial assistance to the PNG Kick Boxing Association;***
 - ***Payment claims were processed and paid without authentication;***

- ***In 8 instances totaling K1,001,587.22 the Auditor could not confirm availability of funds in the requisition indicating that commitment control procedures were not adhered to;***
- ***Approval of a competent Section 32 Officer was not obtained and 4 payments totaling K700,000;***
- ***Photocopies of general expense forms and requisition for expenditure forms were used;***
- ***3 Quotations from Suppliers of Goods and Services were not undertaken;***

21.96 The Auditor identified transfers of funds to various Trust Accounts in the sum of K 2,644,254.53 which the Department simply could not explain.

21.97 In fact no response at all was provided to the Auditors findings other than a final response to a Management Letter which stated:

"The Department Trust Account Management is weak. However it will improve and ensure necessary trust account records are in place".

21.98 The Committee taxed the Secretary of the Department with these findings of failure and the fact that the same failings had existed for years. The Secretary finally admitted that the findings were correct in the following exchange:

Hon Dr. Bob Danaya MP

"Secretary, please take note of that. For four years the Auditor General has made the same findings of inadequate and incompetent management and this appears to be continuing. Are you able to give any explanation for this? Is this done deliberately? Do you have any problems in your Department? What has been done to rectify these particular matters?"

Mr. Valentine Kambori.

"Thank you Chairman. I have also identified these problems.

.....

Certainly this is all part of the problems that I've been dealing with in making changes to the head of finance and head of corporate services. Its just, as I have noted, I am sorry to admit this but its slackness and lack of following due procedures.

So I have since, made that change to the head of function and instituted stricter controls and revised the procedures in-house so that we can strengthen the process in terms of ensuring that all the source documents and accounting documents and records are in place. My instruction is that we should follow all audit trails in need.

Now some of the instances that were referred to like the payment vouchers not there, I also uncovered when I got back after the time I was out of office and I have made sure that we rectified them."

21.99 The Committee sought an opinion from the Office of the Auditor General on whether any improvement had actually occurred.

21.100 The observations of the Auditor General are contained in the following exchanges:

Hon. Dr. Bob Danaya MP

"Mr. Auditor General, do you find any improvement in this accountability in the period 2002 and 2004?

Mr. Thomas Holland

No, I didn't."

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And further:

Hon. Dr. Bob Danaya MP

"The response from the Department is basically that the observations are noted and the Department will improve in areas of weakness.

Auditor General, have you found any improvements up to this point in time?

Mr Thomas Holland

Chairman, we have not.

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- 21.101 This Committee finds no improvement in Departmental performance since 2003.
- 21.102 As more and more money is allocated by Government to development, the inabilities of the Department – and indeed the entire Public Service implementation apparatus – is becoming plainly evident.
- 21.103 The Committee paid close attention to the evidence of the Acting Secretary of the Department, Mr. Valentine Kambori.
- 21.104 As we have said, Mr. Kambori assured the Committee that the problems were well known to him and that he had or was addressing them.
- 21.105 This Committee does not accept the Acting Secretaries assurances.
- 21.106 Even if he had known of the problems (which we doubt) he has achieved no resolution of them – indeed, in some respects the Departmental performance has worsened in the last two years and the failures seem to have become entrenched and systemic since 2000.
- 21.107 Indeed, as we have already reported, the Acting Secretary Mr. Kambori could not summon the interest to remain in the Inquiry. He clearly does not care and is devoid of any capacity to remedy the problems that have been publicly reported by the Auditor General for years.

21.108 Significantly, Mr Kambori undertook to produce certain documents and information to the Committee, but failed to do so.

21.109 Some examples of his undertakings and subsequent failure are:

- Failed to produce a Members Handbook to the Committee, as he undertook to do; and
- Failed to produce to the Committee, to the Ombudsman or to the Auditor General a full and complete account and acquittal of each Constitutional or Statutory Grant or Program during the period 1st January 2002 until the 31st December 2006, as he undertook to do; and
- Failed to produce records of District or Provincial Support Grants despite being given seven months to comply.

The Committee notes that Mr. Kambori stated in evidence that the records were the responsibility of the Office of Rural Development and the Office of Rural Development told the Committee that the relevant records were with the Department.

This mutual disclaiming of responsibility well illustrates the confusion that exists between the two entities.

The Committee is particularly concerned that there seems to be no accountability at all for the acquittal of these Grants and no clear acceptance of responsibility by either the Department or the ORD.

- Failed to produce Departmental structures and changes as he undertook to do; and
- Failed to produce a report on the progress in restructuring the Department to meet challenges arising from the separation from ORD; and
- Failed to produce "**a new set of instructions**" or Financial Guidelines for the acquittal of District Grants despite his undertaking to do so by January 2007; and

- Failed to produce records of payments to Government Departments from Grants or Programs, despite an undertaking to do so by January 2007; and
- 21.110 Initially, the evidence given by Mr. Kambori concerning the nature and history of the Department of National Planning and Development on the 6th December 2006 was helpful and fulsome.
- 21.111 However, when pressed for particular documents and precise facts and statistics – particularly on issues such as the acquittal of Grants and Programs and critical findings of the Auditor General, the evidence was vague, self serving and often unintelligible.
- 21.112 It was on precisely these issues that the Acting Secretary failed to honour his undertakings to this Committee to produce documents and information.
- 21.113 The Committee formed the clear view that Mr. Kambori had decided not to cooperate with the Committee in respect of probing questions of accountability - an attitude that commenced on the first day of the Inquiry when Mr. Kambori absented himself from the Committee with no permission or excuse and became clear on the resumed Inquiry on the 15th February 2007 when meaningless statements took the place of responsive answers.
- 21.114 This Committee and the Auditor General cannot find any area of improvement at all – either in internal management of Departmental affairs or in management of National Development and, in particular, service delivery to our people.
- 21.115 More worryingly, we could detect no understanding in the witnesses that appeared before the Committee of the crucial part played in National development by the Department or the effect of their failures.
- 21.116 All these comments are consistent with the findings of low morale, misconduct, illegal actions, incompetence, chaos management, non-cooperation and failure by Departmental Officers discovered by the Auditor General.

21.117 These findings must be a clear warning to this Parliament that there are serious problems which need redress.

22. 2005 Report by the Auditor General on Procurement Processes in the Department of National Planning and Monitoring.

22.1 This Committee now considers a Report of the Auditor General into Procurement processes by the Department of National Planning and Development.

22.2 In this report, the Committee found an excellent assessment of Departmental morale, management practices and corporate culture.

22.3 The Report shows a Department in deep trouble and assisted this Committee to understand how and why the Department has reached such a state of non-performance.

22.4 The report shows a Department that is leaderless, undirected and confused and in which illegal and corrupt conduct has become accepted and tolerated at the expense of performance and the National interest.

22.5 In 2005 the Office of the Auditor General examined Procurement systems and processes implemented by the Department of National Planning & Monitoring to confirm whether those processes meet the legislative requirements and best practice.

22.6 In particular the Auditor General considered whether:

- The purchase of goods and services was in compliance with relevant legislation and government policy; and
- Sound purchasing principles and practices are applied including value for money and relevant aspects of the Central Supply and Tenders Board Good Procurement Manual.
- The Auditor General also examined the corporate governance exercised by Senior Management over the procurement operations of this agency.

22.7 This Committee has had close regard to that Report which is detailed and complex.

22.8 A summary of the findings of that Report follows:

22.9 The Department of National Planning & Monitoring exhibited:

- ***A poor management attitude to controls which facilitates irregular activities;***
- ***Lack of a planning process and assessment of risk has left the agency in a position that it may not be prepared for sudden changes in the external environment;***
- ***The budgetary process does not follow accepted practices and is not appropriate for a central agency;***
- ***Lack of a monitoring and evaluation process has enabled the irregular activities to flourish and has not detected the parlous state of the projects managed by the Office of Rural Development; and***
- ***Management of procurement does not provide reasonable assurance that the processes that are in place are adequate to safeguard the assets of the State;***

22.10 The Committee is concerned at these fundamental and serious defects in the process of tendering and procurement – a system that requires honesty from all participants in the process of spending public monies on contracts for goods and services to ensure value for money and transparent and effective management and accountability.

22.11 The Auditor General reports that a meeting was held on Tuesday the 11th October 2005 between the Audit Team and the First Secretary Administration – National Planning Office, the Finance Director – National Planning Office, and the First Assistant Secretary of the Office of Rural Development to discuss this audit.

- 22.12 One Departmental Officer refused to participate at all and left the first meeting while others challenged the scope of the Audit and questioned why the Audit was being conducted.
- 22.13 The hostile attitude displayed by those Departmental Officers towards the Audit and apparent discord between Office of Rural Development and National Planning Office staff suggested that the Audit Team should look closely at the control environment – and they did so.
- 22.14 This Committee concludes that Senior Management of the Department of National Planning & Monitoring have an overall responsibility for the stewardship of the Department and as part of the overall stewardship, has responsibility for at least the following matters:
- Adoption of corporate strategies;
 - Resource planning;
 - Communications within the Department;
 - The integrity of the Department's controls and management's information system;
- 22.15 The responsibility for implementing control information systems is implicit in the effective discharge of the Department's other responsibilities.
- 22.16 Management is also accountable for the control processes and can either perform this function itself or retain an independent party to do so.
- 22.17 The Committee made the following inquiry into certain of those basic management tools:

CONTROL ENVIRONMENT

- 22.18 The control environment sets the standards for any organization, influencing control, management processes and accountability.
- 22.19 The Office of the Auditor General considered the values, preferences, operating philosophy and management style of

Senior Management with the intention of assessing the standard of control, management, corporate citizenship, commitment to truth and clear dealing, commitment to quality and competence, leadership, compliance with law and other vital aspects of competent lawful management.

- 22.20 The Committee finds that the Department of National Planning & Monitoring has not established a Code of Conduct but relies on the public sector Code of Conduct – a Code that is not necessarily responsive to a specialized agency.
- 22.21 The Auditor General reports that ethical values were not practiced by all Senior Managers as the Managers were reluctant to talk about management controls at all unless all the Senior Managers were present.
- 22.22 The reasons for this became apparent to the Auditor General at a subsequent meeting when his staff were presented with different answers to the first questions asked.
- 22.23 This Auditor further reports concludes that there is a deliberate non-compliance with legislative requirements in procurement transactions and financial matters in respect to Authority to Pre-Commit expenditure.
- 22.24 This Committee recommends that the Department of National Planning & Monitoring implement policies designed to support the achievement of the organisation's objectives and that these policies should be communicated throughout the organisation and translated into specific practices.
- 22.25 Secondly, this Committee finds that the Department of National Planning & Monitoring has placed no emphasis on acquiring or deploying necessary knowledge, skills and abilities for the requirement of particular positions.
- 22.26 In short, management and staff in many instances are placed in positions which they have no ability to perform and are not given modern management practices to implement.
- 22.27 The Auditor General finds that the control environment within the Department of National Planning & Monitoring does not support the development of mutual trust. Meetings between the Management of the Department of National Planning &

Monitoring and the Office of the Auditor General are an example – they are ineffective when they do occur.

- 22.28 The Auditor General had great difficulty determining which Branch of the organisation held and was responsible for a number of requested files and found confusion, non performance and non compliance at all levels.
- 22.29 The Auditor General identified these failures as either the cause or the effect (or possibly both) of the lack of trust between Officers and entities.
- 22.30 This Committee agrees. We had the same problem identifying lines of responsibility and Departmental witnesses themselves appeared equally confused.
- 22.31 Serious irregularities became apparent after an examination of expenditure. The Auditor General found:
- Splitting of orders to avoid going to tender;
 - Consultancies awarded to relatives of Senior Officers without going to tender;
 - Construction work carried out without going to tender.
- 22.32 This Committee concludes that these matters may be one of the causes of a lack of trust as honest staff will be wary of staff who deliberately override controls and ignore legislative requirements.
- 22.33 The Auditor General found that Departmental staff are fully aware of and actively discuss irregularities, illegalities, fraud and failures in their own Department both with persons inside and outside the Department. Morale is clearly very low and mistrust is an incident of daily Departmental performance.
- 22.34 This Committee goes further.
- 22.35 Such practices are a clear indicator of a Department that is uncontrolled and which acts as a law unto itself.

- 22.36 The identified conduct is corrupt and criminal in nature. It is clearly tolerated and protected and Officers are afraid to speak out.
- 22.37 This situation pervades our Public Service and can only be the result of a long period of deterioration during which organized and protected corruption has penetrated the Public Service.
- 22.38 We have seen precisely the same attitude in every Department or arm of Government that we have examined in the last five years.
- 22.39 This Parliament should not suffer such illegality at any level of Governance and administration – and particularly not in the Department that is responsible for service delivery and planned, targeted and lawful national development involving huge amounts of public money.

OBJECTIVES AND RISKS

- 22.40 The Management of Objectives is basically a function of establishing Departmental aims and communicating them to all staff.
- 22.41 This Committee finds that while the Department of National Planning & Monitoring has had a draft Corporate Plan since May 2004, the document has not been circulated to all staff for comment or information.
- 22.42 Even if it had been circulated, the Corporate Plan does not have objectives and properly couched strategies that will enable the Department's performance to be properly evaluated and measured.
- 22.43 Therefore, risks associated with the objectives cannot be addressed. The plan does not have objectives and strategies or performance indicators in respect of the procurement role of the Department.
- 22.44 Further, we find that not all the Departments Divisions have Operational Plans and therefore the budgetary processes must be flawed.

- 22.45 These plans are the basis for forming a Budget that will provide the resources to meet the Department's objectives and it therefore follows that the Budget for 2005 was not appropriate for the Department's requirements.
- 22.46 This conclusion is supported by the Report of the Auditor General.
- 22.47 In this circumstance, how can any Department co-ordinate, manage and implement a Development Budget to any degree of effectiveness or be responsive to the needs and requirements of such a role?
- 22.48 Further, the Committee finds that the Department has made no attempt to identify internal and external risks which it faces in the achievement of its objectives – which in any case, are not identified or are unclear.
- 22.49 The Department of National Planning & Monitoring has not formally undertaken any assessment of risk associated with procurement and as a result has not affected proper control to ensure that:
- The procurement processes are transparent;
 - The procurement processes obtain value for money;
 - Resources and skills are available and appropriate to the environment in which the Department operates;
- 22.50** These failures expose the Department to the risk of irregular activities.
- 22.51 It would seem that the Department has neither the ability nor the will to comply with tender processes which are fundamental safety device in ensuring honesty, transparency and good value for Government.
- 22.52 This Committee does not entirely blame Senior Management of the Department of National Planning & Monitoring for the evident confusion and ineffectiveness of the Department.
- 22.53 Constant political interference and change in the role of the Department with amalgamation and subsequent devolution of

the Office of Rural Development from the Department of National Planning & Monitoring has given no security or certainty to Senior Management.

- 22.54 This Committee finds that Senior Management is confused as to the exact role and purpose of the Department of National Planning & Monitoring (and the situation is worse in the Office of Rural Development).
- 22.55 However, those facts do not excuse the failure to implement these essential facets of good management.
- 22.56 As we have stated, a good example of the failure of Management is the inability of the Department to distribute or formalize its Corporate Plan and associated plans as the foundation of good Departmental governance.
- 22.57 The absence of a Corporate Plan and therefore goals and systems, means that this Department is operating without any direction and may mean that its stakeholders' needs are not being addressed.
- 22.58 It also means that its performance cannot be assessed in a meaningful manner.
- 22.59 More disturbingly, there is clear evidence of active illegality at senior level – which cannot be the result of oversight or negligence.
- 22.60 This Committee finds that the few existing internal controls have been intentionally overridden by Management in relation to procurement with the result that the particular transactions are illegal.
- 22.61 Cheques have been drawn, in 2005, in instances where the legislative provisions prohibit this action when applications for Authorisations for Pre Commitment ("APC") have not been approved.
- 22.62 Conversely, APC's have been approved in instances where the Tender Board has not been involved in letting the contracts at all and no tenders were sought as is required by the Financial Instructions. This was done by senior management – who must have known that it was a deliberate overriding of legislative controls.

- 22.63 This is, in short, fraudulent activity.
- 22.64 Indeed, both the Auditor General and this Committee conclude that some Senior Managers are facilitating irregular activities, particularly in the use and misuse of an Authority to Pre-commit.
- 22.65 The Authority to Pre-commit Expenditure was introduced through amendments to the **Public Finances (Management) Act 1995** in 2002 to bring under control the problem of amounts being committed of which Department of Finance had no knowledge.
- 22.66 Finance Instruction 1A:A/2003 sets out in detail the operational aspects of the use of the APC and describes who is to receive copies of the APC and when and what to do with it.
- 22.67 APC's are not required in respect of donor funded projects unless there is counterpart funding.
- 22.68 The Auditor General finds that the Department of National Planning & Monitoring has made four applications for APC approvals during 2005.
- 22.69 Two of these applications have not been approved. One was for the purchase of a motor vessel and the other for the purchase of six motor vehicles.
- 22.70 Both applications were for K 400,000 each and in both instances cheques were drawn subsequent to the requests for the approval being rejected by the Department of Finance.
- 22.71 This was clearly illegal conduct.
- 22.72 This Committee considers that Table 1.1 shows the way in which the Department and the Office of Rural Development have ignored the requirements of Law in respect of these two transactions.
- 22.73 This Committee considers this example to be typical of the general attitude of the Department toward legal requirements for the application of public monies in the acquisition of goods and services.

Table 1.1

<u>Legal requirements that should have been addressed</u>	DDf funding of M.V. Togel	DDG funding of six Toyota Land Cruisers
Included in Planning and ORD Budget?	No	No
Business case submitted with	No	No
• Life cycle costing	No	No
• Cost Benefit Analysis	No	No
• Alternative benefit Analysis	No	No
• Necessity for expenditure	No	No
• Approval of agency	No	No
Tenders sought	No	No
CSTB involved	Yes	No
CSTB approval	No	No
Part of an Overall Planning Process with properly described outcomes linked to Departmental budget?	No	No
Survey of vessel Undertaken?	No	N/A
Proper negotiations taken place and formal contract prepared and signed?	No	N/A

22.74 This Committee finds that this absence of compliance with Law exposes the Department to the risk of:

- Value for money not being achieved;
- Irregular activities including collusion;

- That the motor vessel is unsound or unsuitable for the purpose for which it will be purchased;
- That the purchasers are not in accord within an overall plan for the State of PNG.
- Failure to be transparent in procurement;

- 22.75 In addition the Department had two APC's approved for K 200,000 each. In respect to one of these the Department had entered into a contractual arrangement without submitting the Project to the Central Supply & Tenders Board.
- 22.76 In yet another instance a contract was entered into in 2005 for Offshore Training for K 200,000 without an APC application and without recourse to the Central Supply & Tenders Board.
- 22.77 This Committee finds these practices, in a senior line Department responsible for the administration of very large amounts of money, to be utterly unacceptable and a complete failure of management and control.
- 22.78 In respect of the failures to comply with the legal requirements for authorities to pre-commit, this Committee recommends that the Department of National Planning & Monitoring should at least:
- Ensure that expenditure is in accord with a properly approved planning process. This is very basic management and fundamental failure on the part of management of the Department.
 - Not process any expenditure requests that do not comply with Financial Instructions;
 - Not draw cheques if APC's are not approved;
 - Insist that a Business Case is prepared for all items of expenditure that exceed K100,000;
 - Examine the risks associated with any purchase of second hand plant and constantly monitor the application of and compliance with procurement processes and procedures.

- 22.79 The Committee identified further malpractice in the area of consultancies to the Department of National Planning & Monitoring.
- 22.80 **Financial Instruction** 13 Division 5 Paragraph 22 states that the appointment of Consultants, the cost of which is met from Agency Votes, must be referred to the Consultancy Steering Committee of the Department of Personnel Management.
- 22.81 The Auditor General has found that the Department of National Planning & Monitoring made two payments in a total of K130,000 to two different payees in respect of Consultancy services but:
- Did not obtain the required prior approval of the Consultancy Steering Committee from the Department of Personnel Management;
 - Did not provide the outputs of this arrangement for audit verification although a request for this information was made.
- 22.82 The Committee examined these Consultancies more closely.
- 22.83 One payment was made to Steven Mera and the other to Saunia Pty Limited, a company owned by Steven Mera who is a relative of a Senior Officer of the Department of National Planning & Monitoring.
- 22.84 The above practices are illegal and facilitate irregular payments.
- 22.85 There is every reason for this Committee to refer these contracts for further investigation and possible prosecution for a collusion, conspiracy and misappropriation of funds.
- 22.86 At the very least, there is a clear conflict of interest which should have been recognized and dealt with appropriately.
- 22.87 This Committee recommends that the Department of National Planning & Monitoring should:

- Seek prior approval from the Department of Personnel Management for the engagement of Consultants;
- Establish a Monitoring Committee to evaluate the Tenders/Quotes and to monitor the performance and outputs of Consultants;
- Declare any interest of Senior Management in such arrangements;
- Tighten the selection criteria used to evaluate such Consultancies. The criteria should include at least a requirement of experience in a similar field and evidence of having carried out similar successful assignments.

22.88 The Committee also identifies malpractice in the area of verbal quotations.

22.89 **Financial Instruction** 8 Division 3 states that for estimated costs of K 10,000 upwards, three verbal quotations must be obtained from local suppliers and recorded in a Quotation Register.

22.90 Where three quotations cannot be obtained, an explanatory note must be made in the Register. These requirements are established to ensure that there is evidence that the quotes have been sought and to provide an audit trail.

22.91 The Committee concludes the Department of National Planning & Monitoring:

- Has not maintained a Quotation Register to record verbal quotations received and explanatory notes as required;
- Paid for goods and services in advance of receiving the items;
- Does not always provide evidence of the receipt of goods on the payment voucher or a company in documents.

- 23.92 Accordingly, the Committee recommends that the Department should:
- Maintain a Register to record verbal quotations with explanatory remarks;
 - Ensure that payment for goods and services be made only upon receipt of an invoice and the goods or services themselves;
 - Ensure that there is evidence that the goods and services are received on the payment documentation.
- 22.92 There appears to be no attempt to remedy these defects which are basic and fundamental to lawful accounting and management practices.
- 22.93 Further, the Auditor General considered the practice of the Department of National Planning & Monitoring in the obtaining of written quotations.
- 22.94 Financial Instruction 8 Division 3 states that all costs of goods and services between K 10,000 and a K 100,000 require three written quotations and should be entered into a Register and File.
- 22.95 In addition, Paragraph 17 states that
- "Where quotations are the same or the lowest quotation is not chosen, the Purchasing Officer will explain the reason for his choice of supplier on the Requisition (Form FF3) in the Quotation Register and on the file".***
- 22.96 The Auditor General has considered this area and has found:
- ***Three written quotations were not always obtained;***
 - ***Only one quotation was obtained in some instances;***
 - ***Payments were not always made on proper invoices;***

- ***Lowest quotations were in some instances not considered;***
- ***Neither a Register or a file was maintained to enter supplier date or remark;***
- ***Departmental staff lacked the knowledge of the procurement procedure to properly control the matters raised;***
- ***Internal control measures are not effective.***

22.97 This Committee finds that the lack of compliance in this area exposes the State to the risk of:

- Irregular practices such as fraud and collusion;
- Not obtaining value for money from its procurements;
- Management overriding controls for their own benefit.

22.98 This Committee recommends that the Department of National Planning & Monitoring should establish:

- Policies and processes to provide assurance that the legislative requirements are complied with;
- Internal control procedures from the point of requisition to payment that follow best practice and remedy the weaknesses outlined above;
- An independent internal audit function that reports to an Audit Committee to monitor and review the activities of the Department including procurement.

22.99 Once again, the fundamental basic and simple tools of management and accountability are not applied.

22.100 This is a direct failure by the Head of the Department and his Management Team.

22.101 Compounding these failures, the Committee finds no system of data capture and analysis in the Department which would

render the Department responsive to its objectives and changing social needs.

- 22.102 This means that any given response of the Department might be inadequate or inappropriate to the particular challenge faced.
- 22.103 This Committee finds that information should be sought, obtained and communicated within the Department in a timely manner to enable people to perform their assigned responsibilities.
- 22.104 The Committee further finds that this Department has not commenced detailed planning in respect of the Government's intended reintroduction of the District Grants in 2005.
- 22.105 The Auditor General reports that there has been:
- ***No identification of the resources required;***
 - ***No assessment of the capacity of the current staff;***
 - ***No identification of the risks associated with this proposed Government initiative;***
- 22.106 In this regard, the Report of the Auditor General states:
- "If the Department is to be the conduit for much of these funds it is doubtful if it will be prepared to deal with the expected rush to expend the money and reduce the lead time to an acceptable time.***
- Further, this could lead to similar problems highlighted by many of the projects that are incomplete from the 2000 – 2001 Grant Programs."***
- 22.107 Events proved this prediction to be correct and, in the experience of this Committee, the situation remains unaddressed.
- 22.108 This Committee also finds that the Department of National Planning & Monitoring has clearly failed to monitor its own internal environment to assess whether its performance is

adequate and what changes and objectives or policies or activities might be required from time to time

22.109 This Committee finds that the Department of National Planning & Monitoring does not appear to gather information about its own performance, staff attitudes, rumours, internal or external to the Organisation or if it does it does not react to this information in any way at all

22.110 This Committee also finds that information should be sought, obtained and communicated within the Department in a timely manner to enable people to perform their assigned responsibilities.

22.111 The effect of this failure has been to render the Department unable to carry out even basic accounting functions – and certainly retards it from fulfilling its vital role in nation building and development.

22.112 In particular, the Committee finds that the Department of National Planning and Monitoring has not:

- Monitored or established procedures to ensure that the integration of the Office of Rural Development and its subsequent removal from the Department of National Planning & Monitoring was achieved in a manner that ensured that both agencies accepted the merger and the subsequent separation in anything like a professional or competent manner; or
- Monitored the activities of the Office of Rural Development while it was part of the Department of National Planning & Monitoring, in respect to the projects that it manages. This failure dates back to 2001.
- Sought status reports on these projects despite the fact that many of them have been terminated for various reasons.

Had the Department been monitoring these projects, corrective action may have prevented the losses that have and will occur in the future as many of these projects are not likely to be completed.

- 22.113 In other words the Department had lost control over the Office of Rural Development as well as its own performance.
- 22.114 This failure to oversee contracts is a constant problem in bringing development to remote and rural parts of Papua New Guinea.
- 22.115 The Department of National Planning & Monitoring is clearly completely inadequate to the task and needs significant reform and renewal in this regard.
- 22.116 As we have stated earlier in this Report, the Office of Rural Development is equally inadequate to the same task.
- 22.117 Time and again in other inquiries conducted by this Committee, we have found huge expenditure on contracts that either did not exist, have not begun, were cancelled, have not been completed, will not be completed or were incompetently managed (if there was any oversight at all) and these failures are a hallmark of public administration and service delivery in this country.
- 22.118 This is a basic and serious failure on the part of this Department and must be addressed without any delay.
- 22.119 Further, the Department does not conduct any surveys among its stakeholders concerning Departmental performance and the needs of those stakeholders – in particular Members of Parliament directly affected by the performance or failures of the Department and Provincial and Local Level Governments.
- 22.120 This Committee finds that the Department of National Planning & Monitoring has an attitude towards stakeholders and the citizens of this country which can best be described as **"take it or leave it"**.
- 22.121 By this, we mean that the Department appears indifferent to the effect of its failures on our people. There is no will to change, to respond to needs or to improve Departmental performance and this conclusion is corroborated by the Reports of the Auditor General.
- 22.122 We detect little or no effective contact with Provincial Governments or District administration and, as the Auditor

General has pointed out, virtually no capacity to oversee contracts or facilitate implementation at any level.

- 22.123 The Committee cannot find any attempt to obtain information or to service clients in anything like a professional manner. This is particularly serious when considering the size of the Development Budget administered by the Department.
- 22.124 We will make further comment on this later in the Report, but this Committee concludes that the Department is understaffed, incompetently staffed and managed and free of any incidence of competent modern management which would make it responsive and enable it to carry out its duties as it should.
- 22.125 The Committee has also considered whether management periodically assess the performance of its own control processes i.e. whether it understands audits and uses that information in any way at all.
- 22.126 The Auditor General considered this same matter and concluded that the Department has not undertaken any review of the control processes that should be in place to provide assurance that irregular activities are not taking place and that the Department is complying with legislative requirements.
- 22.127 This Committee intends to review the Department again in late 2007 and make an accurate assessment of what, if any, steps have been taken to implement the findings of the Auditor General and to reassess the performance of the Department in 2006.
- 23.128 In light of the arrogant and dismissive attitude of a Management to this Report by the Auditor General, this Committee intends to take a closer and continuing role in supervising a Department which clearly cannot supervise itself.

Procurement Planning

- 22.129 Procurement Planning ensures that the right goods and services are acquired at the right time and at the right price.
- 22.130 It entails linking the procurement process into the operational plans including the Asset Management Plan of an Agency.

- 22.131 These plans are in turn linked to the budgetary process to ensure that funds are available when required.
- 22.132 These plans assist agencies to achieve improved purchasing power, better value for money, better planning and risk management, faster procurement and more opportunities for implementing and achieving the Government's economic objectives.
- 22.133 Such a plan also assures Government that procurement complies with legislative requirements and that funds are available as and when they are required.
- 22.134 Obviously, in order to plan the procurement in a measured and responsive way, agencies must plan when and how they are to fulfill requirements for obtaining goods and services or works.
- 22.135 The procurement strategy developed should incorporate a determination of what the Agency requirement actually comprises, which may require market research, capability of local industry and to determine the risk scope for innovation or alternatives.
- 22.136 Such a plan will also require an indicative cost for budget purposes, funding availability, realistic time lines, capacity and availability of local expertise and a decision of where to advertise for such goods or services.
- 22.137 In Papua New Guinea part of this process is to obtain from the Department of Finance an authority to pre-commit.
- 22.138 The Auditor General finds, and this Committee accepts, that the Department of National Planning & Monitoring does not have a procurement plan to ensure:
- ***Improved purchasing power;***
 - ***Better value for money;***
 - ***Better planning and risk management;***
 - ***Fast procurement;***

- ***More opportunities for implementing and achieving the Government's economic objectives;***
- ***Greater assurance that procurement complies with legislative requirements; and***
- ***Funds availability.***

22.139 This Committee is concerned at yet another failure of basic planning and management.

22.140 How this Department can manage a development budget with no procurement plan, no forethought, no procurement systems, no oversight systems or capacity, no competent accountability, no information gathering, no ability to budget or keep basic records, no management control and limited compliance with legislative requirements and the law, we cannot understand.

22.141 Particularly pertinent evidence was received from Mr. Geoff Hamilton, from the Office of the Auditor General.

22.142 In the opinion of this Committee, the following testimony accurately describes the problems within the Department:

Mr. Geoff Hamilton.

" In the monitoring aspect, we found no proper record of monitoring of some of the projects....We also found that in the Planning processes, they (the Department) did not have proper details included in the draft corporate plan, and some of the objectives and outcomes were described more in the nature of activity and output rather than what time to achieve, which means that measuring performance of the organizationis not possible.

.....there were no internal audit and evaluations undertaken that we could detect. In fact, in the Department of Planning we had trouble determining who was responsible for what...

We saw evidence that the same photograph was used to substantiate payments on a number of

projects. We saw evidence of a number of projects where contracts had been terminated after the initial payments had been made and no work commenced.

We couldn't determine the extent in money terms where projects had been abandoned where money had been spent.

On contract management, the Department was incapable of managing the contracts it has under its control and there are hundreds of them.

There was lack of reporting, monitoring and actual getting out on site to see what was happening and there was lack of orientation between the contractors and the Department in each respective region."

- 22.143 Further, the Committee was told by witnesses that neither the ORD nor the Department of National Planning and Monitoring required an internal audit service because:

"...we have confidence and trust in our accounting staff that enforces and exercises its duties".

- 22.143 In that statement is found the truth of the Departments management failings.

- 22.144 The Departmental reasoning is circular and may be summarized thus :

No internal auditor is required because we can see no need to have one because, in our opinion, our staff do not need to be audited because we trust them not to need to be audited and therefore no internal auditor is required.

- 22.145 An internal auditor is a fundamental requirement for lawful and effective management. There is no excuse for not having such a system.

- 22.146 Considering the entrenched malpractices identified by external auditors over many years, this ludicrous evidence, given by a senior manager (the Head of Department having absented

himself from the Inquiry) precisely states the Departmental malaise which has compromised service delivery, development and the lawful performance of the Departments duties – duties which are duties of National importance.

- 22.147 If this evidence truly reflects the management position, they have failed to read or understand the reports of the Auditor General for many years and are unfit for the positions that they hold.
- 22.148 Quite clearly the Departments has been unaccountable and uncontrolled for far too long – and our people suffer because of that failure.
- 22.149 The Committee concludes that Management know of the malpractices but ignore them (a likely scenario) or that they do not know – in which case they should be relieved of their positions.
- 22.150 Whatever the truth, management refuse to establish an internal audit system because, in our opinion, it would reveal their own incompetence.
- 22.151 How, in the last decade, the Government, various Ministers, Heads of the Department, the Treasury, the Department of Finance, the Ombudsman, the various NEC's and other responsible agencies could tolerate this and other Departmental failures and fail to read the reports of the Auditor General, we cannot understand.
- 22.152 Further, as we have previously noted, the Committee found that the Department has no Code of Conduct, but relies on the Public Service Code of Conduct.
- 22.153 The evidence received strongly suggested that the Department should develop its own Code and enforce it. This evidence was given by Mr. Geoff Hamilton, thus:

" I would like to say something in relation to the Code of Ethics or Code of Conduct. I think that because of the nature of the work that they do, the general Code of Conduct under the Public Service Act is probably not sufficient in relation to some of the activities they do, for example, the management of projects. I think

you need specific Codes of Conduct in respect to conflict of interest, these sort of areas.....

- 22.154 This Committee agrees and will make certain recommendations in this regard.
- 22.155 This Committee has already stated that the relationship between the Department of National Planning and Monitoring and the Office of Rural Development is poor at best – and possibly non existent.
- 22.156 This conclusion was confirmed by both the Report of the Auditor General on Procurement Processes and the subsequent evidence of Mr. Hamilton to this Committee. He said:
- "I think the roles and relationships in the organization.....were not clearly defined.....and they are standing on each others toes and I don't know if a change has come about but at the time we were there, there was no real relationship between the two organizations. They were simply doing what they liked with no assistance or guidance from the parent organization...."***
- 22.157 Considering that the witness was referring to the two senior implementing agencies responsible for guiding and ensuring development and services for our people, this is damning evidence.
- 22.158 The Committee closely questioned Departmental witnesses concerning failures to comply with tendering processes and other requirements of the ***Public Finances (Management) Act 1995***.
- 22.159 The Committee sought explanations for these failures on several occasions but received no coherent or responsive answers.
- 22.160 The Committee directed that a full written explanation and response to its questions and the findings of the Auditor General be delivered by the Department to the Committee within seven days.
- 22.161 Nothing has been received.

- 22.162 Once again, this Committee intends to revisit this Department and particularly its practices and procedures for procurement in late 2007 to assess whether the Management had done anything at all in relation to improving the management of and performance of the Department in this regard.

23. PART TWO OF THE INQUIRY – CAPACITY AND PERFORMANCE OF THE OFFICE OF RURAL DEVELOPMENT

Reports of the Auditor General.

- 23.1 The Reports of the Auditor General on the Office of Rural Development for the period 2000 – 2005 show remarkably similar findings of failure and mismanagement as the Reports for the Department of National Planning and Monitoring.
- 23.2 For the Audit Year 2000, the Auditor General's findings concerning internal systems and management of the Office budget, can be summarized thus:
- ***Misuse of the petty cash float.***
 - ***Inaccurate processing of payments.***
 - ***Unpresented cheques of K 25,552,243.48.***
 - ***Bank reconciliations were not authenticated.***
 - ***A difference of K 649,022 total expenditure was found between the expenditure vote summary printout maintained by the ORD and the expenditure statement maintained by the Department of Finance.***
 - ***The Expenditure statement maintained by the Department of Finance showed expenditure in excess of warrant authority issued under 11 vote items totaling K 18,219,913.***
 - ***No statement or record of authorized officers was made available to the Auditor General.***
 - ***15 cheques totaling K 753,309.90 were cashed at commercial banks without being endorsed for***

encashment. Five of these cheques totaling K 642,000, relate to payments of discretionary funds to Members of Parliament

- ***Two cheques were endorsed to cash payment in breach of the Financial Regulations***
- ***A total of K 108,326.15 was paid to restaurants with no supporting documents or acquittals.***
- ***Abuse of overtime payments to senior staff***
- ***Overpayment of Housing Allowance to the Director***
- ***A total of K 25, 740.00 was erroneously charged to incorrect expenditure votes.***
- ***No prior approval was obtained for private hire of motor vehicles.***
- ***Payments totaling K 93,390.34 were erroneously charged to expenditure vote items that were not budgeted for.***
- ***Payments totaling K 141,385.34 were made from Admin and Consultancy Services expenditure vote number 267 – 3909 – 1101- 126 which were not related to consultancy services.***
- ***A total of K 1,761,166.97 was paid by the ORD but no contract was found, there was no work record produced and no approval from the Attorney General or the Consultancy Steering Committee.***
- ***Paid vouchers were not certified by the appropriate Officers.***
- ***No annual stocktake, no asset record, no approvals for the purchase of assets and no acquisition records were produced to the auditors and the lawful steps to purchase assets were not complied with.***

- ***Vehicles given to the Minister and former Director cannot be found.***
- ***Failure to obey lawful practice in the giving of advances.***
- ***No approval was given by the authorized officer for any journal entry***

District Support Grant

23.3 The following problems were identified in the management of District Support Grants:

- The records held by the Department of Finance and the ORD reveal a shortfall in the Non-Discretionary component of K 18,109,219.50.
- A cheque paid to a Member of Parliament in a sum of K 102,500 was not recorded at all.
- A cheque paid in a sum of K 70,000 was cancelled twice.
- In 52 instances, paid vouchers totalling K 27,687,360 were not cancelled as required. This was an invitation to fraudulent activity.
- In 81 instances totaling K 4,737,500, corresponding paid vouchers were not produced to the Auditor.
- In 131 instances, payments totaling K 18,657,800 were made as Non-Discretionary payments for various projects, however accountability statements were not produced to the Auditor. Therefore the disbursement of this amount could not be verified to determine the propriety of the payments.

23.4 These failures are repeated in subsequent Audit Reports.

23.5 In the opinion of this Committee, there has been no attempt to address these systemic problems by the ORD - which still exist.

Report of the Auditor General on the Office of Rural Development 2001.

23.6 The Auditor General found weaknesses and failures that mirror those in the Department of National Planning and Monitoring. The more serious shortcomings were:

- ***Deficiencies in the operations of the drawing account; and***
- ***Weakness in commitment control; and***
- ***Weakness in procurement and payment procedures; and***
- ***Shortcomings in maintenance of salaries and wages; and***
- ***Ineffective management of advances; and***
- ***Shortcomings in Rural Development Grant; and***
- ***No cooperation from internal audit; and***
- ***Weaknesses in internal control.***

23.7 Once again, the Auditor reported that there were outstanding matters from previous audit reports which were not addressed by the Office of Rural Development. This situation remains the case to the date of this Inquiry.

23.8 The Committee finds that, in 2001, the Office of Rural Development handled Rural Development Grants in a sum of K 143,500,000.

23.9 The Auditor General conducted a superficial random review of this fund.

23.10 In respect of the District Support Grant, the Auditor General found failures to cancel paid vouchers for cancelled cheques. This audit was inadequate and reveals little of the management of the Grants or oversight of projects or contracts funded from this fund.

23.11 Likewise, in respect of the Rural Action Program, the Auditor General found:

- ***Payment vouchers were neither identified nor labeled and the Auditor General was unable to verify payments for this reason; and***
- ***All records were removed to the Office of the Ombudsman for investigation.***

23.12 In 2001, the quality of the Audit Report was poor. Only superficial inquiry was made of important matters of accountability and this Committee is deprived of the opportunity to make any meaningful findings on the performance of the Office of Rural Development as a result.

23.13 We will recommend that a full and searching audit be made of these funds and the quality of management in the period 2000 – 2005.

The Report of Deloitte Touche Tohmatsu and Reconciliation of 2000 and 2001 District Development Programme

23.14 On the 19th July 2004, Messers. Deloitte Touche Tohmatsu presented a Report to the then Minister for Finance and Treasury, Hon. Bart Philemon MP as Managing Agents for the 2000 and 2001 DDP allocations.

23.15 The salient findings were:

- ***Payments were made against some projects that were not authorized by the Office of Rural Development or the Managing Agent in accordance with the applicable guidelines; and***
- ***Records obtained from the Office of Rural Development, the Central Supply and Tenders Board, the Department of Treasury, the Department of Finance, the Information Technology Department and the Bank of South Pacific were inadequate and often contradictory; and***
- ***General Suspense Account records supplied by the Department of Finance are unclear and incomplete***

and the auditor was unable to determine whether all DDP payments were recorded in the reconciliation; and

- ***Payment vouchers were missing from the Accounts Department; and***
- ***Cheques from December 2002 were still unpresented in 2004 and it was unclear if those cheques had been cancelled or stopped; and***
- ***Support documentation did not comply with DDP guidelines; and***
- ***Certification was absent from some documentation; and***
- ***Inadequate details were noted on a number of payment vouchers to identify the payment as being DDP in nature.***
- ***Failures to comply with the requirements of the Public Finances (Management) Act 1995 and Financial Instructions; and***
- ***Failure to comply with tendering processes; and***
- ***Failure to maintain any or any proper and detailed accounts; and***
- ***Failure to assist and co-operate with the Audit.***

- **2000 DDP:**

Totalled K89 million. Only K 5.2 million was expended and no acquittals were presented to the Managing Agent.

A significant number of payments were made from the Department of Finance suspense account to DDP projects with no certification from the Managing Agent.

- **2001 DDP**

K 89 million was allocated.

K 57 million was allocated to 57 Districts.

The remaining K 32 million cannot be traced but possibly K 6 million was paid into the Sepik Highways, Roads and Bridges and Other Infrastructure Trust Account and a further K 6 million possibly to another Trust Account.

ORD records were not produced and what records did exist are inadequate.

The Office of Rural Development authorized fifty "Heads of Agency" and "Tripartite" agreements to avoid the public tendering requirements through the CSTB.

The Office of Rural Development had no power to do this and authorizations so made were given in breach of the Public Finances (Management) Act 1995 and the Financial Instructions.

None of these agreements which purport to be contracts have a contract price, adequate scope of works, bill of quantities or payment schedule and in at least one case prepayment of the full value of a Tripartite agreement was made in a sum of K 400,000.

A total of K 65.5 million was paid from the Suspense Account from the 2000 and 2001 allocations but were not certified by the Managing Agent.

These payments seem to be DDP related, but the auditor cannot allocate them to a particular project as there are no or no adequate records.

A further K 18.9 million was paid out but not certified by the Managing Agent and cannot be

traced to DDP projects because there are no records.

A total of K 92.9 million spent in 2000 and 2001 cannot be traced to DDP because there are no records.

More seriously, this deceit and obfuscation continued into the period 2002 -2004.

K 162 million was expended to May 2004 of which K 85.3 million was not certified by the Managing Agent and cannot be traced with certainty as there are no records.

- 23.16 The findings of this independent audit are strikingly similar to those of the Auditor General right up until the time of this Inquiry.
- 23.17 They show the same failings and illegality across the Department of National Planning and Monitoring, the Office of Rural Development and, in particular, the Department of Finance – a Department that appears totally unaccountable.
- 23.18 The findings reflect the massive diversion of funds that this Committee identified in previous Inquiries – particularly into Trust Accounts.
- 23.19 However, the most serious fact is that these abuses have continued to the present time, with no apparent attempt to rectify or improve.

The Report of the Auditor General on the Office of Rural Development 2002.

- 23.20 The Report of the Auditor General on the Office of Rural Development for the year 2002 shows no improvement in the Office of Rural Development.
- 23.21 The Report identifies management difficulties within the Office of Rural Development, and leads this Committee to conclude that the ORD had entrenched and intractable failings in the management of its own budget and systems that were to become worse and more evident in subsequent years – largely

due to a significant improvement in the quality and depth of Reports from the Office of the Auditor General.

- 23.22 The Committee concludes from this Report that the failings within the ORD were basic and serious. For instance, the Office of Rural Development failed to manage its own bank account to anything like a competent standard.
- 23.23 In 2001, bank reconciliations were incomplete and inadequate. Poor book keeping was in evidence, incorrect and duplicated journal entries were not investigated or adjusted, cancelled cheques which had been presented at bank were not investigated – even though this indicated fraud and a serious breakdown in internal control.
- 23.24 In short, bank records were derelict and there appeared to be no management concern at this very basic failure.
- 23.25 Further, commitment control and management of procurement and payment procedures showed weaknesses and inept performance. These problems suggest a lack of transparency and accountability.
- 23.26 Clearly the Auditor General was concerned at incompetent performance in the area of procurement and payment and identified the same abuses and illegal practices in 2002 that were ultimately highlighted and described in depth in the Special Audit of 2005 into Procurement.
- 23.27 Poor record keeping, non-existent records, failures to acquit, no tendering process for contracts, payment in advance on quotation, no oversight, no checking of contractors, no work completion certificates for work performed at ORD Headquarters – the list goes on and on.
- 23.28 This Committee is now inured to seeing these type of failures at all levels in all Government Departments.
- 23.29 These are matters of very basic accountability but our Public Service seems incapable of meeting even these standards in the management of its own affairs – and clearly cannot hope to manage large and targeted development budgets to any acceptable standard.

Report of the Auditor General on the Office of Rural Development 2003.

- 23.30 In 2003, the Auditor General produced a detailed and searching report into the Office of Rural Development – a welcome trend that was to continue in subsequent years.
- 23.31 The Report again identified the same failures that had been evident in past years, but also showed two clearly new developments.
- 23.32 The first emerged through the inclusion in the Report of responses from the Office of Rural Development to specific findings.
- 23.33 These responses give a candid picture of the underlying management, administrative and attitudinal problems attending the operation of the Office of Rural Development.
- 23.34 The second was the revealing of inability of the Office of Rural Development to manage, lawfully implement, oversee, report on the management of public monies or make procurement or payment in anything approaching a competent manner and the clear inability of staff and management to perform this vital function.
- 23.35 These matters of audit revealed a poorly performing Office, but more importantly, the precise reasons for these failings in the form of morale problems, confused, confusing or non-existent systems of management and accountability and management that seems incapable of understanding or addressing these problems.
- 23.36 For the first time the Committee can understand the reasons for the continuous failings by the Office of Rural Development to address recurring weaknesses and can appreciate that these weaknesses identified by past audits were a symptom of a much greater malaise in the Office.
- 23.37 Salient findings were:

Bank Account:

- 23.38 The Committee considers the management of a bank account to be a reliable guide to the administrative and management health of any organization.
- 23.39 This is so, because reconciliation and timely keeping of banking records is the most basic accounting requirement.
- 23.40 Any entity that cannot perform this function has an obvious and serious problem either of competence or staffing or both.
- 23.41 Any entity that allows this failure to continue unaddressed has an obvious and serious problem with its management.
- 23.42 Any Head of Department who tolerates these failures is in breach of the **Public Finances (Management) Act 1995** and should be removed from his position.
- 23.43 The Auditor found that the ORD Bank reconciliation statement was complete only up to February 2003. This continued a pattern that had been identified in past years – but which had not been addressed.
- 23.44 This failure continued in 2004 and 2005 and seems to have become a feature of the Office of Rural Development.
- 23.45 The statements for February were seriously flawed. They showed numerous incorrect entries which needed immediate investigation and adjustment.
- 23.46 The total amount of money represented by these entries was a huge K 119,000,000 – and this was only to February!
- 23.47 Audit verification of the reconciliation item shown as “Other Item (debit)” with a total of K 833,087 disclosed the following failures:
- ***Incorrect and duplicated journal entries raised in the amount of K 330,324 were not investigated and adjusted in the cash book;***
 - ***Cheques recorded as cancelled but presented at Bank in an amount of K 206,889 went uninvestigated – even though this indicated fraud***

and a serious breakdown in internal control over the physical handling of cancelled cheques;

- **Unidentified variances in posting of paid cheques amounted to K 200,000.**

23.48 Unpresented cheques totaling K 5,368,487 included six stale cheques amounting to K 3,636,844 relating to cheques in the years 2000 – 2003. This matter was clearly not addressed for years – and remained derelict until the date of this Inquiry.

23.49 A huge amount of K 115,964,527 in cash reimbursements from the Waigani Public Account was not recorded or accounted for in the cash book;

23.50 Audit verification of the reconciling item described as “Other Item (credits)” in a sum of K 2,679,290 was found to be duplicated entries for the same canceled cheque.

23.51 The Auditor General concludes :

“Based on the preceding audit observations, there is a total break down in the internal control over the physical (handling) and recording of funds which could easily result in the malversion of funds”.

23.52 The response of the Office of Rural Development was bland and, considering that these problems were evident for years, unsatisfactory. It was:

“The management, while accepting the above audit findings stated that they will engage a bank reconciliation officer from Department of Finance and explanation is being sought from previous officers concern to help out in updating the bank reconciliation”.

23.53 Banking procedures and reconciliations are the most basic requirement for accountability and a failure of the type identified by the Auditor General is totally unacceptable.

23.54 This Committee was not able to find any improvement in subsequent years.

Procurement and Payment Procedures

23.55 Once again in 2003, the Auditor General identified a number of failures of a type that had existed for years and continue to exist to the present day. These included:

- ***Failure to certify supporting paid vouchers;***
- ***Erroneous charging of payments to expenditure vote items;***
- ***Failure to provide particulars, listings, documents and acquittals of payments;***
- ***Approval of altered amounts of payment by unauthorized officers;***
- ***Payment for maintenance of privately owned motor vehicles;***
- ***Over ordering, failure to tender, prepayment and other procurement abuses including back dated or false quotations;***

23.56 The Auditor General in subsequent reports gave deep consideration to the procurement practices of the Office of Rural Development but the failures identified in 2003 and previous years were a clear indicator of long standing problems in corporate culture and systems.

23.57 The responses of the Office for Rural development were bland assurances that the problems were known and had been dealt with – a contention that subsequent Audit Reports clearly dispel.

Rural Development Grant

23.58 The Auditor General examined the quality of management of and accountability for management of the Government Grants and Programs which are the responsibility of the Office of Rural Development.

- 23.59 The Report was a litany of failure and inept management and performance and, in many aspects, found the same failings as identified by Deloitte Touche Tohmatsu.
- 23.60 The funding allocation for the 2003 for the District Support Grant – Non Discretionary and the Rural Development Fund – Discretionary - was K 22,768,500.
- 23.61 The Office of Rural Development manages these two schemes, which are designed to ensure rural development and service delivery.
- 23.62 This is not an onerous responsibility, but does require the existence of systems of management and oversight and highly responsive systems of accountability – both of which require dedicated professional staff aware of their role and motivated to perform it.
- 23.63 Further, the citizens of this country are entitled to receive transparent and timely accounts of the application of this money from the agency that allocates and manages it – the Office of Rural Development.
- 23.64 This Committee finds the following situation in 2003:
- Poor management and control over the Non Discretionary portion of the District Support Grant.
 - Poor management and controls over the Discretionary component of Rural Development Funds in that:
 - Payments were made without necessary supporting documents; and
 - Payments not approved by a Financial Delegate or Section 32 Officer;
 - Guidelines for disbursement of funds were not obeyed;
 - No quotations were obtained for projects;
 - No acquittals were made by recipients of funds;

- The Office of Rural Development could not ascertain and did not know whether projects were actually implemented, commenced, cancelled, proceeding, reallocated or completed;
- There was no follow up action on Inspection and Acquittal of the funds allocated;

23.65 The effect of these findings on the Audit was summarized by the Auditor General at Page 255 of his Report, thus:

"In light of the glaring deficiencies referred to above, reliance could not be placed by audit on the internal controls in operation in the disbursement and acquittal of Rural Development Funds during the period under review"

23.66 This miserable situation was to continue into 2004 and 2005, apparently unaddressed.

Rural Development Fund

23.67 The Office of Rural Development is responsible for implementing projects under this Program.

23.68 This Committee finds the following failures in 2003:

- Officers failed to inspect projects as there is no funding for this purpose. There is absolutely no ability to know whether projects have even commenced. This is a base failure and an open invitation to misuse of public monies;
- A system of inspection by Provincial Administrators is open to, and has resulted in, corrupt dealings and a deprivation of services to our people. This result is clearly evident in the operation of the Sepik Highways, Roads and Bridges and Other Infrastructure Trust Account.
- Delays in releasing funds by the Department of Finance resulted in cost overruns and delays in Project implementation;
- The Office of Rural Development is ill equipped and funded to carry out its functions;

- Lack of control over the awarding of contracts and a clearly abused system of contract tendering and allocation.

23.69 This Committee will recommend a full and detailed Inquiry and Audit into the use of the District Support Grant, Rural Development Fund and the District Development Program by the Auditor General.

23.70 It is high time that the citizens of this country knew how and where this money is spent and to what effect.

23.71 There is a clear hiatus between the huge amounts of money allocated and released by Government and what the members of this Committee know to be happening (or not happening) in the Districts.

23.72 We strongly suspect that much if not all of the failure to deliver services can be traced to the failures of an overly complex, non-performing system in Waigani that largely exists to maintain itself rather than service our people.

23.73 The Auditor General sums up his findings in 2003 in the following ways:

"In light of the glaring deficiencies referred to above, reliance could not be placed by audit on the internal controls in operation in the disbursement and acquittal of Rural Development Funds during the period under review".

And further

"Audit recommends the Guidelines of the District Support Grant and Rural Development Fund be reviewed and re-designed so the allocated funds are actually utilized for the purposes intended and that funds are properly accounted for."

23.74 Clearly there were deep rooted problems within the Office of Rural Development.

- 23.75 The simplistic assurances that formed the responses of the Office of Rural Development to these findings are, at least, evidence that management had read and were aware of the reported failures but equally clear is the failure to remedy them.
- 23.76 After the damning findings of the Auditor General in 2003, the Committee expected to see a marked improvement in 2004.
- 23.77 Unfortunately this expectation was not fulfilled.

Report of the Auditor General on the Office of Rural Development 2004.

- 23.78 Salient findings were:

Bank Records

- 23.79 The Office of Rural Development failed to prepare monthly bank reconciliations for the entire year 2004, apparently because due to the fact that ***"no particular officer being specifically assigned"***.

Commitment Control:

- 23.80 After the findings of failure to maintain reconciled bank accounts in 2003 and the assurances from the Office of Rural Development that they would address the problem, this Committee was concerned to see that absolutely no steps had been taken to perform this most basic of tasks.
- 23.81 This either means that management is incompetent (in which case they should be removed from their positions) or that they treat this failure with indifference and contempt (in which case they should be removed from their positions).
- 23.82 A comparison of the Expenditure Vote Summary printout maintained by the Office of Rural Development with the Expenditure Statement maintained by the Department of Finance revealed a huge difference of K 36,260,204 between the two records. No adequate explanation was given for this discrepancy.

23.83 This continuing and very basic failure bespeaks a seriously dysfunctional entity that needs urgent and sweeping change.

23.84 These failures are compounded by the fact that the Office of Rural Development exists to perform a crucial role in national development and service delivery and bears onerous responsibilities of accountability and performance – which it has failed consistently to meet.

Procurement and payment:

23.85 Audit found:

- ***Twenty missing paid vouchers; and***
- ***Failure to comply with requirements for acquisition or rental facilities; and***
- ***Payment for goods not received; and***
- ***Failure to record or acquit advances.***

23.86 Once again, the same problems are seen year after year with no evident attempt to remedy them or lift the performance of the Office.

23.87 This Committee can only conclude that management does not care or comprehend and has lost any degree of control over its officers.

Discretionary Grants:

23.88 The Report of the Auditor General clearly shows a failure by the Office of Rural Development to competently manage this important aspect of public finance distribution.

23.89 The Auditor General states, in respect of Discretionary Grants:

"Audit noted serious defects and lapses in the checks and balances on disbursements and accountability of these grants."

.....K11 million paid to the 109 national Parliamentarians for the year ending 31st December 2004 disclosed the following matters of serious concern:

- **Not a single Parliamentarian acquitted his/her Discretionary Grant paid during the year under review.**
- **No accountability or disbursement forms were furnished for Audit.**
- **No project reports were sighted.**
- **No inspection reports were made available.”**

In view of the unsatisfactory state of affairs concerning the serious breakdown on accountability on Members’ Discretionary Grants, Audit recommends that the Office of Rural Development take all necessary steps to ensure that all these funds are brought to account”.

- 23.90 It is clear to this Committee from this and past Reports of the Auditor General into the Office of Rural Development, that it is an entity incapable of oversight of and accountability for a huge amount of public money and incapable and unwilling to remedy its own failures.
- 23.91 What little accountability and competence there was in 2000 has significantly eroded by 2004 and, this Committee concludes, continues deteriorating to the present day.
- 23.92 This begs the question – if the Office of Rural Development cannot perform its implementation function, why does it exist?
- 23.93 The Committee gave close attention to the Report of the Auditor General into the Office of Rural Development in 2005.
- 23.94 In particular, the Committee considered working documents of the Auditor General to ascertain the participation and degree to which the Office of Rural Development comprehended the seriousness of the Audit findings.
- 23.95 We do not doubt that the Auditor General made full declaration of his findings to the Office of Rural Development, but the

Committee wished to satisfy itself that the ORD was fully aware of the serious and adverse findings.

23.96 This Committee was so satisfied. The Auditor General made a full report to the ORD and invited responses and explanations before the Audit Report was finalized.

23.97 The Audit Report gives this Committee no confidence that the Office of Rural Development can meet the challenges that it now faces – or indeed that it understands its failures or is prepared to deal with them.

Report of the Auditor General on the Office of Rural Development 2005.

23.98 In 2005, the Auditor General produced an excellent and searching Report on the operation of Government Departments in general and on selected Departmental Procurement Processes and Procedures – including the Office of Rural Development – in particular.

23.99 These Reports show an Office of Rural Development in serious decline, unable to meet requirements of Law, inadequate to the task of meeting its functions and aims and unable to deal with the detection of these failures by the Auditor General.

23.100 This Committee has considered a Management Letter from the Office of the Auditor General to the Office of Rural Development dated the 4th of October 2006.

23.101 That Letter makes conclusions about the performance of the Office of Rural Development in 2005, summarised in the following terms:

- **“gross negligence by the management”.**
- **“absence of properly maintained cashbooks”**
- **“no effective cash management”**
- **“no timely and supervised reconciliation of the monthly cashbook and bank reconciliation statements”**

- **"no reconciliation statement for the prior years 2003 and 2004"**
- **"management has failed to reconcile bank accounts"**
- **"unpresented cheque figure of K 16,697.982.51 not supported by an unpresented cheque reconciliation listing printout"**
- **"reconciliation statement not authenticated by the preparer"**
- **"the departmental head has failed to adhere to the mandatory requirement to reconcile bank accounts on a monthly basis"**
- **"the Department does not reconcile its expenditure ledger records against the records of department of finance"**
- **"25 items of vote incurred over expenditure totalling K 9,057,275"**
- **"the under-utilisation of funds by the department underlies a serious management problem"**
- **"the department may not have capacity to implement programs and projects that it has budgeted for"**
- **"management has failed in its responsibility to ensure that funding has provided for activities and projects for which the department have budgeted for are actually carried out and implemented"**
- **"financial delegates signatures were not verified on requisite general expense forms"**
- **"a competent examiner had not authenticated respective claims in five instances totaling K 2,762,830.58"**

- **“in 22 instances totaling K 5,297,360.60 payment vouchers could not be located”**
- **“payment claims were processed and paid without authentication”**
- **“in eight instances totaling K 1,001,587.22 the financial delegate did not confirm the availability of funds”**
- **“approval of a Section 32 officer was not obtained in four instances totaling K 700,000”.**
- **“payments were made using photocopies of general expense forms and requisition for expenditure form”;**
- **“three quotations from suppliers of goods and services were not undertaken”**

23.102 This Committee read these findings to the Director and management of the Office of Rural Development at the Inquiry and sought explanations.

23.103 These Officers undertook to provide responses to the Committee.

23.104 Nothing was received.

23.105 We believe this failure to honour undertakings to a Parliamentary Committee is due solely to the fact that neither the Department nor the Office of Rural Development have any answers, ideas, plan or ability to understand their failures – much less fix them.

23.106 The Committee specifically concentrated on the issue of the ability of the Office of Rural Development to manage contracts.

23.107 This area of operations is a sure guide to the effectiveness, accountability and competence of the Office to fulfill its function of delivering services and development – particularly to remote and rural areas.

23.108 After detailed consideration of all material before it, the Committee concludes that, in 2005:

- The Office of Rural Development has, since 1999, demonstrated an increasing inability to manage contracts funded by Government Grants and Programs for disadvantaged rural areas.
- The Office of Rural Development has, since 1999, demonstrated an increasing inability to monitor or control projects under its control.
- Illegality, incompetence, fraud, imposition and ineptitude attend the efforts of the Office of Rural Development to manage or implement contracts or projects throughout the country.

This Committee has seen this in other Inquiries which dealt with or touched on contract management by the Office – notably the Inquiry into the Sepik Highway, Roads and Bridges and Other Infrastructure Trust Account

- Delivery of Government programs, and therefore development and service delivery, has been seriously impacted by these failures.
- Frequently, payment to contractors has been uncontrolled and without any accountability. Payments exceed the value of the work and, in other instances, work remains unfinished despite payment being made.
- The lack of proper controls over contract letting and contract management has caused losses of funds.
- There is no record of contracts or projects which have been terminated where money has been paid – therefore there is no possibility of calculating the amount of money spent for which little or no value was received.
- K 119,505,343 was spent on capital works in 2005. Yet the items of vote were incorrectly charged to transactions not related to items of the vote and there was no

documentary record at all of the status of works or projects funded by this money provided to the Auditors.

- No inspection or verification of sites or projects has occurred, huge delays in building e.g. classrooms have occurred, complete failures to commence projects have occurred, no records of payments to contractors are kept in a readily accessible form and there is virtually no control or verification system at all.

23.109 In 2005, the Auditor General repeated his comments of earlier years concerning failures of the Office of Rural Development to manage its own internal finances and accounts to any acceptable standard.

23.110 The same faults and malpractice observed through the last five years persisted unaddressed and apparently was not a matter of concern to management.

23.111 However, a new and serious development is noted by the Auditor General and mirrors the deliberate non-cooperation experienced by this Committee.

23.112 The Auditor reports at Page 146 Para 11.8.3.3:

"Withholding of Records and Documents

During the course of the audit evidence of records and documents requested were not provided for audit purposes. The absence of records and documents significantly limited the scope of the audit as the evidence requested was mainly on a statistical basis"

23.113 This refusal to cooperate with an auditor and this Committee is a sure sign that the management are hiding their failures and are devoid of answers, ideas or capacity to remedy or even recognize and understand these problems.

23.114 The Committee sought answers for this non co-operation from witnesses who appeared before it. We received a half hearted explanation that the Department was **"too busy"** to assist the Auditor General.

23.115 We do not accept this excuse.

- 23.116 There is a legal duty of the first importance imposed on all public servants and departments and arms of Government to give full co-operation to the Auditor General.
- 23.117 Unfortunately, public servants regard themselves as unaccountable and treat the Auditor General with scant regard. This attitude is not acceptable and we intend to see that it changes.
- 23.118 The Committee will make referrals in respect of this failure to co-operate.

24. Special Audit into Procurement Processes and Procedures in the Office of Rural Development.

- 24.1 In 2005 the Office of the Auditor General conducted an Audit Examination of the Tendering Procedures & Practices within the Office of the Rural Development.
- 24.2 This Committee has already addressed the findings of a similar Audit of the Department of National Planning & Monitoring and all those comments are directly applicable to the Office of Rural Development.
- 24.3 However, there is one further aspect peculiar to the Office of Rural Development which was identified as problematical by the Auditor General – that of Contract Management.
- 24.4 The Office of Rural Development was originally established to manage and implement the Rural Development Grants and Programs of Government.
- 24.5 The Rural Development Grants are funds that are made available in the Government budgets either in the form of Grant transfers to Provinces and Districts or in direct funding of goods and services for development purposes that are managed by ORD.
- 24.6 The Grants appear in the form of District Support Grants, Provincial Support Grants and District Development Program Grants.

- 24.7 These Programs seek to address Government deficiencies in the development and implementation of rural projects and to provide an efficient vehicle for delivery of services to the rural areas according to the National Planning Office presentation of the Program in 1996.
- 24.8 The Program was designed to contribute to major development initiative such as building highways including other road networks, bridges, ports and construction of classrooms and staff houses.
- 24.9 Very substantial amounts of money had been committed, expended and managed by the ORD since 1999 under the District Development Program Grants.
- 24.10 The majority of the funds set aside have been put to good use. However, the delivery of the Program has been adversely affected by inadequate contract management and a lack of proper monitoring projects by ORD.
- 24.11 At the date of the Audit by the Auditor General, the committed funds amounted to K14, 950,483.
- 24.12 The Auditor General finds that many contracts have been terminated even though a substantial portion of the contract payments have been made or have been terminated and new contracts issued and then cancelled again, subsequent to further payments being made.
- 24.13 This Committee finds that the very basis of proper application of Government monies to rural areas must be the ability to lawfully both give and administer contracts for services and goods.
- 24.14 The Auditor General finds that in relation to such contracts a substantial number show payments which exceed the value of the work completed and in many other instances the work remains incomplete.
- 24.15 The Auditor General concludes:

"The lack of proper controls over the contract letting and contract management has caused losses of funds. As there is no record system maintained of the contract/projects terminated where funds have been

expended it was not practicable for audit to determine the amount of monies spent for which little or no value was received”

24.16 In other words, the ORD is unable to properly, lawfully and competently manage contractual performance and thereby lawfully and competently manage public monies.

24.17 This Committee recommends urgent action be taken to remedy this situation.

25. CONCLUSIONS AND FINDINGS

The Department of National Planning and Monitoring

25.1 The Public Accounts Committee, upon all the evidence received by it in an Inquiry into the Department of National Planning and Monitoring and the Office of Rural Development, makes the following findings and conclusions :

- The Department of National Planning and Monitoring is poorly organized and poorly managed.
- The Department of National Planning and Monitoring has evolved in an unplanned manner and has neither the quality of staff and management that it requires nor systems or management strategies that it needs.
- The Department of National Planning and Monitoring is incapable of fulfilling its functions and can neither Plan nor implement Development to any acceptable degree.
- The Department has failed the people of Papua New Guinea and the various Governments of the time by underspending and failing to implement development budgets competently or fully.
- The Department of National Planning and Monitoring has grown in an unplanned and chaotic way and has suffered from political interference and ad hoc planning and direction for years.
- The Department of National Planning and Monitoring is incapable of competently managing or accounting for its

own Departmental finances and has no ability to manage or implement Development Budgets or public monies entrusted to it for the purposes of development.

- The Department of National Planning and Monitoring has failed to implement, co-ordinate, plan, oversee, or account for development projects and contracts which are its responsibility, to any adequate standard.
- The Department of National Planning and Monitoring has no capacity or ability to oversee contracts, ensure requirements of law are satisfied, allocate or spend development budgets, manage Trust Accounts competently and lawfully, understand its functions and carry them out or service the people of Papua New Guinea.
- Unlawful and inept decision making and an uncontrolled management environment has taken the place of professional and effective administration.
- The Departmental failings will continue to have a negative effect on national development, stability and growth.
- The Head of Department and staff of the Department of National Planning and Monitoring have failed to lawfully manage, account for, apply, audit or apply public monies within its power.
- The Department requires professional, highly competent staff and management of the highest order – such people may not be available within the Public Sector. It may be necessary to source such expertise from private enterprise.
- The Department has failed to co-operate with the Auditor General as it is required to do.
- The Department has failed to co-operate with this Committee as it is required to do.
- The Department has become non-performing and incapable of recognizing or remedying its failures.

- The management of the Department is incompetent and unable to properly and lawfully conduct the functions of the Department.
- It is possible that the Department in its present form is beyond rebuilding. We will make certain recommendations for the creation of an dedicated agency to ensure service delivery and proper and fruitful application of Development Budgets.

25.2 This Committee finds the following breaches of the ***Public Finances (Management) Act 1995***:

By the Heads of the Department in the period 2000 - 2006:

- Section 5 (1) (a) - in that they failed to ensure that the provisions of the ***Public Finances (Management) Act 1995*** were complied with by his Department; and
- Section 5 (1) (b) – in that they failed to ensure that all accounts and records relating to the functions and operations of the Department were properly maintained; and
- Section 5 (1) (d) - in that they failed to ensure that all expenditure was properly authorized and applied to the purposes for which it is appropriated – particularly in respect of the development budget managed by the Department; and
- Section 5 (1) f) – in that they failed to ensure all expenditure was incurred with due regard to economy, efficiency and effectiveness and the avoidance of waste – particularly in the area of contract allocation, procurement and payment; and
- Section 5 (1) (j) – in that they failed to ensure that information required by the Public Accounts Committee was submitted accurately and promptly; and

By the management of the Department including the Heads of the Department in the period 2000 – 2006.

- Section 47 A ***Public Finances (Management) Act 1995*** – in that the Secretary and the management of the Department failed to or permitted breaches of law relating to the calling, consideration and awarding of tenders or the execution of State contracts as revealed in Reports of the Auditor General.
- 25.3 This Committee makes the same findings in respect of the Office of Rural Development.
- 25.4 The Committee finds prima facie evidence of possible criminal conduct – particularly in the area of contract procurement and payment. We will refer this report to the appropriate investigatory agencies.
- 25.5 The Committee recommends a detailed audit of all Trust Accounts managed by the Department and an assessment of whether the Trust Accounts have been managed according to Law.
- 25.6 This Committee recommends a detailed and thorough audit of all development Grants, Programs and/or funding in the period 2000 - August 2007. It is high time that the exact disposition and application of that money was made known.
- 25.7 In the short term, the Government must, as a matter of urgency, force the Department of National Planning and Monitoring to act lawfully and obey the ***Public Finances (Management) Act 1995*** and ***Financial Instructions*** – at least in the management of its own finances.
- 25.8 At the very least, we strongly recommend the immediate replacement of the present management team with competent and efficient professionals capable of rebuilding the Department while, at the same time servicing the Government and our citizens by delivering development and services as the Government has directed.
- 25.9 Government must insert experts in Law, Accounting and Audit into both the Department of National Planning and Monitoring and the Office of Rural Development. With the advent of

Supplementary Budgets and significantly increased development funding, this interim measure is urgent. This should start the process of compliance with Law.

- 25.10 In the longer term, the Government should give urgent consideration to devising a new and effective way to deliver services and implement its development budgets.
- 25.11 This Committee has significant doubts that the Public Service agencies in current form can be entrusted with this task – or with public monies used to fund them.
- 25.12 It is clear to us that Departmental management did nothing to rectify evident problems which, as a result of this indifference, have worsened to the point where the current management cannot even understand them – and certainly cannot fix them.
- 25.13 This paralysis demands, at the very least, new and competent managers but preferably a new, highly geared, modern, energetic and effective Development Implementation Agency with competent and vigorous staff trained, properly led and capable of implementing development and overseeing and ensuring service delivery.
- 25.14 The reports of the Auditor General on the Department of National Planning and Monitoring show entrenched and systemic malpractice and complete absence of anything approaching competent systems and procedures that we expect in a senior implementation agency.
- 25.15 Almost every aspect of the operations of the Department of National Planning and Monitoring in the management or handling of public monies has failed or does not reach acceptable levels of performance.
- 25.16 It is clear that the Department of National Planning and Monitoring cannot monitor, evaluate or oversee the implementation of policies and programs or attend to post implementation impacts of projects.
- 25.17 The Committee is left with the clear impression that there is virtually no checking of projects at all – and this goes a long way to explaining the abuses and criminality and corruption

that we have seen in the use of Trust Accounts and the performance of contracts at District level, in other Inquiries.

- 25.18 As we have said in this Report, part of the blame for the present doleful state of affairs in the Department must be the constant reshaping of the Department by political interference. This would certainly account for the evident morale problem identified by the Auditor General.
- 25.19 We doubt that the present system (which has developed in an unplanned manner) can be repaired to anything like the standard required to build the nation.
- 25.20 We conclude that sweeping change is required to the Department and the ORD and strongly recommend that, if the expertise to revitalize the Department cannot be sourced locally, the Government identify and deploy foreign experts to make the delivery of services and development work effectively and smoothly.
- 25.21 The National Parliament must address this failed Department – preferably by abolishing it and replacing it with a professional, funded and capable implementation agency with precise statutory powers and responsibilities and under constant audit and scrutiny to ensure that public monies allocated to development and service delivery are lawfully applied and managed to the benefit of our people.
- 25.22 We are sure that foreign donors will assist in this reform process and make available expertise, funding and experience to ensure proper service and development implementation.
- 25.23 The Department of National Planning and Monitoring failed to cooperate with the Auditor General and with this Committee. We received assistance in understanding the functions of the Department, but as we and the Auditor General delved into actual performance and failures, that attitude was replaced by jargon, empty assurances, worthless promises and undertakings and finally, by the Head of the Department, Mr. Kambori, absenting himself altogether from the Inquiry.
- 25.24 We conclude that there is no will to improve the Departmental performance and no ability or plan to do so.

- 25.25 We also conclude that while this Department remains in its present state, service and development delivery will not improve.

The Office of Rural Development

- 25.26 The Committee concludes that the Office of Rural Development has demonstrated a declining ability to fulfill its purpose to any acceptable standard over the last five years.
- 25.27 The Auditor General clearly described an Office and a Department at odds with each other, unable to cooperate, confused as to their roles and responsibilities, incapable of managing themselves, incapable of managing development budgets, devoid of systems or procedures, unaccountable and resistant to scrutiny and under the control of a Secretary who needs to spend more time controlling his Department and less time involved in extraneous administrative pursuits.
- 25.28 The Committee is particularly concerned at the finding that the Office of Rural Development cannot oversee or manage contracts or projects.
- 25.29 While money is generally properly targeted and adequate for development to occur, there is a National failure in Waigani in that the responsible implementing agencies are incompetent and non performing – and in the case of the Department of Finance, riddled with corruption and illegality.
- 25.30 These facts have been known for years – and successive Governments tolerate it. This Committee has seen a clear picture of quickening deterioration in these line agencies responsible for implementation of Government development policy in the period 2000 – 2005.
- 25.31 There can be no better illustration of this decline than the Audit Reports into the Department of National Planning and Monitoring the Office of Rural Development.
- 25.32 We urge this Parliament to tackle the Public Service and bring it back under control.

- 25.33 If this is not done the result will be increasing anger and disaffection among our people and a further disintegration of the power and effectiveness of the State.
- 25.34 In short, the management of public monies by the Department of National Planning and Monitoring and the Office of Rural Development is incompetent and inadequate.
- 25.35 We conclude that the entire system of service delivery and implementation represented by the Department of National Planning and Monitoring and the Office of Rural Development requires a complete replacement and revitalization by a specialized, finely calibrated entity with full capacity to deliver and monitor development as the Government prescribes it.
- 25.36 If necessary, privatize service delivery – it is clear that the Public Service in the form of the Department of National Planning and Monitoring and Office of Rural Development has little interest and even less ability to service our people.
- 25.37 Finally, this Committee recommends a full audit investigation into the use and effect of public monies deployed by the Department of National Planning and Monitoring and the Office of Rural Development by way of Grants and Programs under their management in the period 2000 – 2006.

26. RESOLUTIONS OF THE COMMITTEE

- 26.1 The following Resolutions were made unanimously by the Public Accounts Committee:
1. That the Public Accounts Committee will Report to the Parliament on the Inquiry into the Department of National Planning and Monitoring and the Office of Rural Development pursuant to Section 86 (1) (d) **Public Finances (Management) Act 1995** and/or Section 18 **Permanent Parliamentary Committees Act 1994**.
 2. That having read and considered the draft Report to Parliament, the Committee resolves to accept the terms of the Report and to table same at the earliest opportunity.

3. That a copy of this Report be delivered to the Minister responsible for Planning matters forthwith for his consideration.
4. That a copy of this Report be delivered to the Chief Secretary to Government forthwith.
5. That copies of this Report be delivered to the Department of Personnel Management, the Public Service Commission, the Ombudsman, the Royal Papua New Guinea Constabulary, the Office of the Attorney General, the Office of the Solicitor General and the Office of the Public Prosecutor and be generally made available to all of our citizens or interested organizations who may seek a copy.
6. That matters of evidence received by the Committee and set forth in the Report to the National Parliament may be released and published by Committee staff by way of that Parliamentary Report.
7. To accept the conclusions, recommendations and findings contained in this Report.
8. To accept the referrals made in this report.
9. To censure the Acting Secretary of the Department of National Planning and Monitoring and the Acting Director of the Office of Rural Development for the failure of the Department and the Office to co-operate with the Auditor General by attending meetings or producing documents.
10. To censure the Acting Secretary of the Department of National Planning and Monitoring and the Acting Director of the Office of Rural Development for absenting themselves from the Inquiry by the Public Accounts Committee without explanation or permission.
11. To make further inquiry the Department of National Planning and Monitoring and the Office of Rural Development in late 2007 or early 2008.

27. REFERRALS

- 27.1 This Committee refers this Report to the Ombudsman, the Royal Papua New Guinea Constabulary, the Department of Personnel Management and the Offices of the Attorney General and Solicitor General for consideration and possible action in respect of breaches of Law that we have identified.
- 27.2 The Acting Secretary for National Planning and Monitoring and the Acting Director of the Office of Rural Development are referred to the Royal Papua New Guinea Constabulary for investigation and appropriate action for failure to co-operate with the Auditor General and with this Committee in that they failed to ensure that documents and records were made available to the Auditor General or this Committee when such material was sought.

28. RECOMMENDATIONS

28.1 This Committee makes the following recommendations:

1. The Parliament accept this Report of the Public Accounts Committee concerning the management and operation of the Department of National Planning and Monitoring and the Office of Rural Development.
2. The findings and resolutions of the Committee, to be effective, need to be actioned by the Government, without delay.
3. In the short term, a competent, professional management team be appointed to the Department of National Planning and Monitoring and the Office of Rural Development to bring accountability and rectification to those agencies.
4. As part of this management change, Government immediately recruit and deploy experts in Law, Audit and Accounting to attempt to bring the Department and the Office systems under control and to ensure that, at least, the Department meets legal obligations in its handling of and accounting for public money and/or property.

5. That the present system of implementing development budgets is clearly ineffective.
6. We recommend that urgent attention be given to devising a system of implementation and control of development budgets that ensures delivery of services and full accountability for all monies and contracts to our people.
7. We believe that the power over implementation should be removed from the Public Service and reposed in a specialized agency which is subject to oversight and from which absolute accountability can be demanded and enforced at any time.
8. Government must give efficient service delivery and honest, competent and professional implementation of development budgets and programs by a professional agency, the highest national priority.
9. This is the least that our citizens are entitled to demand from their Government and the basic obligation of this National Parliament.
10. Any system that replaces or reforms the current one must be based on a precise and clear statutory foundation that concisely sets forth directives, powers, performance benchmarks, audit control, penalties for non compliance or failure to achieve targets, adequate funding, ability to oversight and manage projects and contracts and all other matters that are currently required but not achieved.
11. We recommend that there be a Parliamentary Committee established to investigate and report on the form, functions and powers of such an agency – having regard to worlds best practice.
12. Moreover, such a system must be beyond political interference and public service incompetence and corruption, while being the subject of constant audit and oversight.

13. That Committee should be given three months to make its report and should be guided by precise Terms of Reference which allow it to consider such matters as privatization, co-operative arrangements with foreign governments, alliances with private enterprises, sourcing of expertise from other countries and any other system that will result in a highly geared and effective delivery agency which can perform to a high standard.
14. That Committee should not be an excuse for accessing the public purse, but be made up of dedicated members capable of tackling their brief in a meaningful manner.
15. We further recommend that the Office of the Auditor General be funded and resourced to enable it to conduct regular audits of all aspects of the operation of the Department of National Planning and Monitoring and the Office of Rural Development – including and in particular the capacity of those agencies to properly oversee and control development budgets and specific contracts and programs.
16. That a full and searching audit of Trust Accounts managed by the Department of National Planning and Monitoring and the Office of Rural Development be conducted.
17. That a full and searching audit of all Statutory Grants and Programs managed by either the Department of National Planning and Monitoring or the Office of Rural Development in the period 2000 - 2007 be instituted immediately.
18. That this Report be acted on immediately.

29. CONCLUSIONS

- 29.1 This Committee hopes that this Report will start a process of greater accountability for and responsible management of public monies managed or overseen by the Department of National Planning and Monitoring and/or the Office of Rural Development.

- 29.2 Our citizens and our political leaders are entitled to expect so much better than the Department of National Planning and Monitoring and the Office of Rural Development have delivered but the remedy is wholly in the hands of Government and this House.
- 29.3 More importantly, this Committee hopes that this Report will start a process from which a world class development implementation agency will arise to replace the present failed system and to service our people properly and with dignity– no matter where they are in Papua New Guinea.
- 29.4 Such an agency would be the greatest national legacy that any Government could leave, but it will require the unpalatable step of accepting that we have failed or at least, that we can and must do so much better to ensure that our citizens receive the basic services that are their right.
- 29.5 This Committee extends its thanks to the Office of the Auditor General for its excellent reports and assistance and to all witnesses who appeared before the Committee.

THE PERMANENT PARLIAMENTARY
COMMITTEE ON PUBLIC ACCOUNTS

REPORT TO THE NATIONAL PARLIAMENT

INQUIRY INTO THE DEPARTMENT OF NATIONAL
PLANNING AND MONITORING AND OFFICE OF
RURAL DEVELOPMENT

PERMANENT PARLIAMENTARY COMMITTEE ON
PUBLIC ACCOUNTS

INQUIRY INTO THE DEPARTMENT OF NATIONAL
PLANNING AND MONITORING

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