

PUBLIC ACCOUNTS COMMITTEE
INQUIRY INTO THE DEPARTMENT OF FINANCE
INTERIM REPORT

1. INQUIRY BY THE PUBLIC ACCOUNTS COMMITTEE

- 1.1. On the 22nd of February 2006 the National Parliament referred the Department of Finance to the Public Accounts Committee in order that the Committee carry out a comprehensive inquiry into:
- (i) The handling of and accounting for all public moneys, properties and stores by the Department and its Officers during the period 2002 – 2005;
 - (ii) Any and all allegations of impropriety and mishandling of public moneys, property and stores by the Department and its Officers during the period 2002 – 2005;
 - (iii) The payment of claims against the State particularly those payments made as a consequence of Summary Judgements, out-of-court settlements of any kind and any other payments made in satisfaction of claims or rewards against the State during this period;
 - (iv) That the Committee shall table a Report of its findings and recommendations, if any, in the Parliament as soon as it is able.
- 1.2. On the 2nd of March 2006 the Public Accounts Committee opened the Inquiry into the Department of Finance.
- 1.3. On the 8th May 2006 the Public Accounts Committee reconvened the Inquiry into the Department of Finance. That

inquiry continued into the 9th May 2006. The matter was adjourned until the 3rd July 2006.

- 1.4. The Public Accounts Committee received a large number of allegations of serious misconduct by Officers of the Department of Finance and of the making and payment of fraudulent, unlawful false claims against the State – which were satisfied by the Department of Finance – often on the order of very Senior Executive Officers.
- 1.5. The Public Accounts Committee received a large number of serious allegations concerning fraudulent and false out of court settlements and judgements brokered by certain lawyers, approved for payment by senior Officers of the Department of Finance and, quite illegally, paid.
- 1.6. The Public Accounts Committee received a number of serious allegations concerning the allocation and payment of money to a certain church group, educational establishments which are not certified and to a particular geographical area. The allegations, if true, may be serious breaches of law on the part of the Secretary of the Department of Finance and Senior Executives of the Department.
- 1.7. These allegations, if correct, involve very large amounts of public money over a long period of time and suggest a Department in which there are no adequate mechanisms of command, control or accountability.
- 1.8. The allegations, if correct, also involve breaches of the ***Public Finances (Management) Act***, the Financial Instructions and the ***Criminal Code Act*** by Officers of the Department of Finance and other Senior Public Servants apparently involved in varying degrees with the making and payment of false claims upon the State and the allocation and payment of public monies to improper causes.
- 1.9. These allegations are matters of considerable national importance, suggesting that the Executive has lost control of the

Public Service and an abrogation of any responsibility for protecting the public purse.

- 1.10. The Public Accounts Committee has also received serious allegations of nepotism, wantokism, improper use of Trust and Suspense Accounts, improper influence and associations between Departmental Officers and payees or claimants, bogus study courses at significant public expense, payment of out-of-court settlements with no or no adequate representation of the State and many other allegations have been made – often with detailed evidence provided.
- 1.11. The Public Accounts Committee further heard that neither the Secretary nor any Executive or Manager of the Department of Finance accepted any responsibility whatever for checking the validity of judgments, awards or claims which were delivered to the Department of Finance to be paid. If this is correct, the public purse is without any protection whatsoever.
- 1.12. The Public Accounts Committee also became aware of very large payments of public money to legal firms retained to act for and on behalf of the State. One particular legal firm appears to have received tens of millions of kina for work that should have been performed by the Office of the Solicitor General and the Office of the Attorney General and which could, in any event, have been performed at a fraction of the amounts paid.
- 1.13. Members of the Public Accounts Committee also raised queries as to the administration of the East Sepik Highway Trust Fund, funding for Provincial Governments, handling of Support Grants and payment of Provincial debts by the Department. No satisfactory answers were provided to any of these queries.
- 1.14. The Public Accounts Committee directed the Office of the Auditor General to make full inquiry and report on the retainer of external legal firms and the management of the East Sepik Highway Trust Fund Account.

- 1.15. As of the 20th June 2006 neither report is to hand. The Public Accounts Committee has been told that the inquiry into the East Sepik Highway Trust Fund will be completed by July, but that the Auditor General has neither the will nor the capacity to inquire into the engagement of external legal firms unless his Officers are seconded either to the Public Accounts Committee or to a formal Commission of Inquiry.
- 1.16. The Public Accounts Committee has ascertained that the Auditor General is concerned for his safety and the safety of his staff if they embark on an audit of external legal firms.
- 1.17. Fear of physical retaliation has been a feature of this Inquiry. We have heard from a number of informants and public servants, that they are afraid for their safety and the safety of their family as a result of involvement in this Inquiry. This situation is utterly unacceptable.

2. INTERIM CONCLUSIONS OF THE PUBLIC ACCOUNTS COMMITTEE

- 2.1. Given the number and detail of allegations of fraud, theft, malpractice and maladministration in the Department of Finance, this Committee is of the view that a formal Commission of Inquiry should be called to perform a full and complete investigation into the handling of, disbursement of, accounting for and protection of public moneys by the Department of Finance.
- 2.2. However, the Public Accounts Committee emphasizes that these matters are allegations only – but require a full investigation efficiently to establish their accuracy or otherwise.
- 2.3. The Committee therefore recommends that a deeper inquiry by a specially tasked Commission of Inquiry be held, into the Department of Finance and various matters arising from the inquiry of the Public Accounts Committee.
- 2.4. The Committee recommends that that Commission inquiring to at least:

- (i) The management, control and protection of public funds against misuse; and
- (ii) Allegations of improper or illegal application of public moneys by the Department of Finance in the period January 2000 – June 2006; and
- (iii) To establish if there has been involvement or complicity in these matters by any other and what arm, Office, Officer or Department of Government
- (iv) All aspect of the engagement of external legal firms by any Department, entity or arm of the State; and
- (v) Work performed by external legal firms for and at the request of the State; and
- (vi) Payment by the State to external legal firms, in particular, the reasonableness of the amounts claimed and paid and the legality of those payments; and
- (vii) The precise circumstances by which the CACC and NEC approved the engagement of and payment to an external law firm; and
- (viii) A full investigation of the propriety and legality of all out of court settlements entered into by or on behalf of the State in the period 2000 – June 2006; and
- (ix) A full investigation of the legality and propriety of all consent and default judgements into the State in the period January 2000 – June 2006; and
- (x) The effectiveness of systems which protects the public money; how these systems may have failed and to recommend reforms or changes to prevent those practices continuing.

- (xi) To recommend and refer for prosecution or other appropriate sanction, any person involved in illegal activity.

3. THE FUTURE OF THE PAC INQUIRY

- 3.1 This Committee has limited jurisdiction. It is not an investigatory agency and cannot act at large. Jurisdiction is limited to an Inquiry into the handling of, transactions with and accounting for public monies, property and stores.
- 3.2 The matters that have emerged in this Inquiry to date require detailed, expert and deep inquiry by a properly commissioned and resourced Inquiry, which can reach the truth of these allegations in a way that the Public Accounts Committee cannot do.
- 3.3 Accordingly, this Committee recommends to the National Parliament and the Government that it appoint a Commission of Inquiry into the Department of Finance, the safeguards of public monies and allegations made to the Public Accounts Committee of illegal, improper and corrupt practices.
- 3.4 This Committee has neither the jurisdiction, resources or co-ercive powers required to fully investigate these serious allegations. Accordingly, we propose to make this recommendation to the National Parliament and adjourn this Inquiry generally to permit the Parliament and the Government to consider the suggested course of action.
- 3.5 The Committee may reconvene this Inquiry at a later date.
- 3.6 This Inquiry is adjourned accordingly.