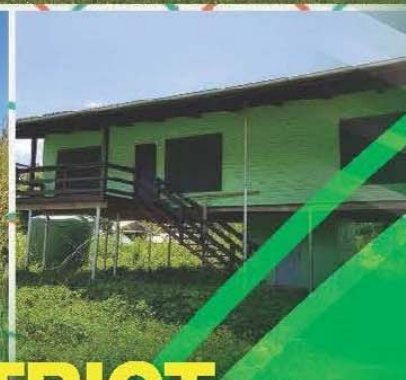
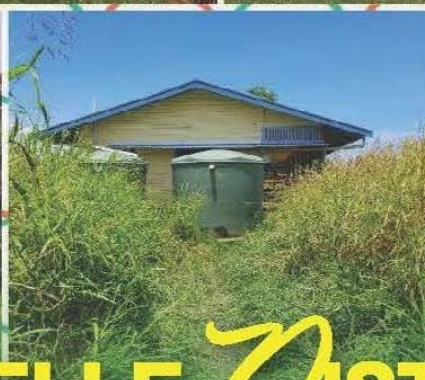




## AUDITOR-GENERALS OFFICE



# **Gazelle District**

## SERVICE IMPROVEMENT PROGRAM PERFORMANCE AUDIT FOR YEARS 2007-2016

# PERFORMANCE AUDIT REPORT OF THE GAZELLE DISTRICT SERVICE IMPROVEMENT PROGRAM (DSIP) FOR YEARS 2007-2016

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The objective of the audit was to examine and ascertain the authenticity of the DSIP expenditure payments in compliance with Government procurement process, DSIP procedural requirements and applicable legislation.

## Key Statistics

District	Gazelle
Sitting Member	Honourable Jelta Wong
Total Population	150,000 plus
Five (5) Local Level Government areas	Toma Vunadidir, Reimber Livuan, Central Gazelle, Inland Baining, Lassul Baining
Province	East New Britain
Total DSIP funds for 2007-2016	K58.05 Million
Balance as at 31 <sup>st</sup> August 2017	K10,627,255





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## OFFICE OF THE AUDITOR-GENERAL

**Honorable Job Pomat, MP**

Speaker of the National Parliament

Parliament House

WAIGANI

**National Capital District**

Dear Mr. Speaker

In accordance with the provisions of Section 214 of the National Constitution of the Independent State of Papua New Guinea, and the Audit Act 1989 (as amended), I have undertaken a Performance Audit on the District Services Improvement Program (DSIP).

I submit the report titled *Gazelle District Services Improvement Program (DSIP) Performance Audit for years 2007-2016*.

Following its presentation, receipt and tabling, the report will be placed on the Auditor-Generals Office of Papua New Guinea Homepage: [www.ago.gov.pg](http://www.ago.gov.pg)

**Mr. Gordon Kega, MBA, CPA**

**Acting Auditor-General**



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## Acronyms and Definitions

Acronym	Definition
CSTB	Central Supply Tenders Board
DIRD	Department of Implementation and Rural Development
DTOA	District Treasury Operating Account
DSG	District Support Grant
DSIP	District Services Improvement Program
EDF	Electoral Development Funds
ENB	East New Britain
GDRMU	Gazelle Development Road Management Unit
GDDA	Gazelle District Development Authority
KRH	Kerevat Rural Hospital
LEL	Log Export Levy
LLG	Local-level Government
PF(M)A	Public Finance (Management) Act 1995
PFD	Project Formulation Document
PGAS	PNG Government Computerized Accounting System
PID	Project Initiation Document
PSIP	Provincial Services Improvement Program
PSTB	Provincial Supply and Tender Board



## Executive Summary

### Introduction

Since the 1980s, the Government of PNG has allocated funding to Members of Parliament (MPs) to spend in their electorates known as the Electoral Development Fund (EDF). PNG has 89 open electorates (usually made up of one or more districts).

In 2007, the Government of PNG introduced the District Services Improvement Program (DSIP) program replacing the Electoral Development Fund (EDF). Under the DSIP, government funding of K10million was to be made available to each District.

The District Development Authority Board (previously known as the Joint District Planning Budget Priorities Committee (JDPBPC)) was the decision-making body for the DSIP and has ultimate responsibility on how the funds are spent. It is chaired by the MP of the district (or electorate) and also includes Local-Level Government (LLG) presidents and community members.

The DSIP is not a discretionary account for MPs to use as they wish. The Government intends for the DSIP funds to finance basic infrastructure, and to improve service delivery. In 2013, the Department of Implementation and Rural Development (DIRD) issued administrative guidelines for spending DSIP funds. The guidelines stated that at least 40 per cent of this funding is to be spent on service improvement in the areas of health and education.

### Audit objective, criteria, scope and methodology

An independent audit of the Gazelle District Support Improvement Program (DSIP) was requested by the Member (MP) for Gazelle District, Honourable Jelta Wong in September 2017. The Auditor-General considered the request and decided to commence an audit on this matter.

#### Audit Objective

The objective of the audit was to examine and ascertain the authenticity of the DSIP expenditure payments in compliance with Government procurement process, DSIP procedural requirements and applicable legislation.

#### Criteria

To form a conclusion against this audit objective, the AGO examined and ascertained whether:

- DSIP expenditure payments complied with Government procurement process, procedural requirements and applicable laws (including DSIP Guidelines, Finance Instructions, Public Finance Management Act (1995 as amended), and the Legislations of Papua New Guinea).

- Management and acquittals including monitoring and reporting requirements were adhered to.
- Goods and services have been received for the funds expended and value for money was achieved.

### Scope

Audit covered the Gazelle District Development Authority (GDDA) and DSIP programs and projects around the Gazelle District and looked into the following areas:

- Payments and expenditures for the period 2013-2016 fiscal years
- Billing and Accounting Practice
- Corporate Governance
- Management Internal Controls and systems
- Asset Management
- Projects Inspection and Verification
- Management of Infrastructure Contracts
- Cash Book and Bank Reconciliations
- Human Resources

### Audit Methodology

The audit team employed a number of data collection methods and techniques including:

- examination of expenditure records and source documents;
- data analysis and recalculations of payment amounts;
- project inspection and verification;
- the assessment of systems and payment process in place including survey using questionnaire;
- reviewing of DSIP key policy documents such as DSIP Administrative Guidelines and Finance Instructions, District Corporate plans, PFMA 1995, and relevant legislations; and
- interviewing key officers of the Gazelle District Development Authority (GDDA).

### Audit Conclusion

The Gazelle District Development Authority (GDDA) has not complied with all Government procurement process, DSIP procedural requirements and applicable legislation, regarding DSIP expenditure. The findings from this audit are serious with a number of suspicious and potentially fraudulent transactions detected. The audit inspections also revealed that a number of projects undertaken by GDDA had either nothing to show for the expenditure (a 'ghost' project), or were left incomplete or completed to a substandard level, despite the full project costs being spent.

The GDDA did not maintain appropriate supporting documentation to validate DSIP expenditure. Examples of missing documentation included invoices, payment vouchers, contractual agreements, certificates of completion, tender documents, quotations, bank reconciliations, development plans, project reports, fixed assets registers and minutes of meetings.

This gives rise to non-compliance with the requirements of the Finance Instruction and the Public Finances (Management) Act and increases the risk of irregularities, fraud and error with respect to the application of DSIP funds.

It was also found that the District Treasury Operating Account (DTOA) has been used to receive other funding in addition to the DSIP funds. Utilising the DTOA for other deposits reduces the ability of the Government to hold Districts accountable for the manner in which DSIP funds are spent. Further, in a majority of cases the difference between the DSIP funds disbursed and deposited in the trust account has not been reconciled. Accordingly, it is not possible to accurately determine where funds have been received from and the intended purpose of the funds.

The strategic planning framework has not been fully implemented across the district and was not operating as intended. Key documents, including the Five-Year District Development Plan, approved budgets and the prioritised list of projects were not followed. As a result, spending has not been well-directed, and funds have been spent on projects outside the aims of the DSIP.

Actual expenditure from Gazelle District is not consistent with the proportions mandated and recommended by the DSIP program requirements. This creates a risk that some sectors will not receive the specified proportion of funding and benefits of the program will not be appropriately spread around the District. The desired outcomes of the DSIP are not being achieved and certain areas of focus of the DSIP are receiving little or no benefit.

It was noted that a considerable amount of expenditure was undertaken on items outside the DSIP guidelines. On areas including: tokens of appreciation; Wages; School Fees Assistance; Gazelle District Road Management Unit (GDRMU); and maintenance.

There appear to be limited processes in place to manage and monitor the progress of projects or the performance on sub-contractors. Further, there is limited use of signed contracts to formalise the subcontracting relationship with service providers. These malpractices have resulted in value for money not being achieved by the District.

Further, limited use of a competitive tender process increases the risk of irregularities and fraud.

The impacts from the malpractices shows that, there are many infrastructure projects that have been fully paid for by GDDA but remain either incomplete or completed to a substandard level. Due to the limited use of contracts at a District level there is limited recourse against non-performing sub-contractors that have been utilised.

The GDDA's management of assets is not effective. The fixed assets register is incomplete and not properly maintained. This was evident in the audit tests results, which found that a large number of assets could either not be located or were identified as damaged. The lack of maintaining and updating an asset register creates the potential of mismanagement and theft of GDDA assets.

## Recommendations

### Recommendation 1

AGO recommends that the Gazelle District Development Authority (GDDA):

1. Ensures that financial records and data for financial years 2012 back to prior years are tracked and kept to ensure accountability of GoPNG DSIP funds.
2. Builds proper and secure storage rooms for records management to safeguard the records of the GDDA.
3. Properly and accurately records all funds received, and reconciles these to the District Treasury Operating Account (DTOA) on a timely basis and corresponds with the financial data that is sent by GDDA to Department of Finance Head Quarters in Port Moresby.

**Gazelle District Development Authority Response:** *Agreed*

### Recommendation 2

AGO recommends that the Gazelle District Development Authority (GGDA):

1. Complies with the funding guidelines of DSIP by sector and implement the sector programs accordingly to ensure that services are delivered to the population according to the government's plan by sector.
2. Establishes a monitoring system to track expenditure by program against its DSIP expenditure in Gazelle District, so that it can clearly track its level of development against its development plan.
3. Replaces the five (5)-year development plan which lapsed at the end of 2017 with a new multi-year development plan that will guide GDDA and drive developments.

**Gazelle District Development Authority Response:** *Agreed*

### Recommendation 3

AGO recommends that the Gazelle District Development Authority (GGDA):

1. Immediately stop all expenditures out of the DSIP funds that are not in line with the funding arrangements. Appropriate disciplinary/legal action is also required against:
  - Officers who abused their authority to pay themselves excessive “Tokens of Appreciations”;
  - Officers responsible for using GGDA funds to pay salaries for individuals who are not employed by the district (termed ‘Ghost Names’ in this audit); and
  - Officers that were responsible for making a payment of K18,000 in the guise of School fee assistance to the pyramid scheme ‘Aim Global’.
2. Should not use the District Support Grants (DSG) and DSIP funds that come into the District Treasury Operating Account (DTOA) to maintain GGDA’s business arm Gazelle District Road Management Unit (GDRMU). This is in breach of the DSIP guidelines.
3. Review the long term viability of maintaining the GGDA business arm GDRMU, and whether the benefits outweigh the costs of continuing it.

**Gazelle District Development Authority Response:** *Agreed*

### Recommendation 4

AGO recommends that the Gazelle District Development Authority (GGDA):

1. Takes appropriate management action on the Contractors and Officers tasked to manage the projects listed below:
  - Kerevat Market — non-existent despite spending K3 million;
  - Tokiala Fibre Glass Project — non-existent despite spending K489,782.30;
  - Utmei Aidpost upgrade — unfinished despite spending K321,000;
  - Vunapalading Construction of the Kerevat Health Centre Nurses Duplex — unfinished despite spending K320,000;
  - Kerevat Rural Hospital X-ray Room Renovation — incomplete despite spending K151,588; and
  - The maintenance invoice for work at Kerevat Rural Hospital (KRH) totalling K30,000 being paid to an individual, which the AGO could not verify.
2. Establishes controls on Procurement & Tendering to ensure compliance with the DSIP guidelines, PFMA and relevant legislations. This should ensure that project designs, costs, monitoring and reporting is done in a manner consistent with the allowable standards.
3. Reviews the quality and qualifications of officers that it currently employs in the administration. This review should be conducted in consultation with the Provincial Works Office. The GGDA should upskill current staff or advertise

for skilled personnel that are efficient and effective in delivering tasks and programs.

**Gazelle District Development Authority Response:** *Agreed*

### **Recommendation 5**

AGO recommends that the Gazelle District Development Authority (GGDA):

1. Undertake a stocktake of all government assets, building, plant, equipment vehicles furniture's and fittings, and a centralised asset management system is developed and maintained by a dedicated officer to ensure that all assets are accounted for.
2. Have a dialogue with the East New Britain (ENB) Provincial Administration to review the policy for disposing of vehicles after 3 years. This is a costly exercise and the GDDA has no budget for buying new vehicles or machinery for the DSIP sectoral programs.

**Gazelle District Development Authority Response:** *Agreed*



## Chapter 1. Financial Arrangements

### Conclusion

Gazelle DSIP did not maintain appropriate supporting documentation to validate DSIP expenditure. Examples of missing documentation included invoices, payment vouchers, contractual agreements, certificates of completion, tender documents, quotations, bank reconciliations, development plans, project reports, fixed asset register and minutes of meetings.

This gives rise to non-compliance with the requirements of the Financial Instructions and the Public Finances (Management) Act and increases the risk of irregularities, fraud, and error with respect to application of DSIP funds.

It was also found that the District Treasury Operating Trust Account (DTOA) has been used to receive other funding in addition to the DSIP funds. Further, in a majority of cases the difference between the DSIP funds allocated and deposited in the DTOA and total funds received has not been reconciled. Accordingly, it is not practical to accurately determine where funds have been received for the intended purpose of the funds.

This has the effect of the district having access to additional funding with no clear direction as to how these funds should be spent. Further, utilising the DTOA and DSIP account for other deposits reduces the ability of the Government to hold districts accountable for the manner in which DSIP funds are applied.

### Key Findings

A total of K58.05 million was disbursed as DSIP to the Gazelle district for years 2008-2016. The DSIP funding was managed under the account named "District Treasury Operating Trust Account". This account held all other funds for the district, including:

- District Support Grants (DSG);
- National Agriculture Development Program (NADP); and
- Log Export Levy (LEL).

Audit review of the financial management of GDDA found that no record has been kept to account for all the funds received into the district despite having a full finance team (Treasurer, Accountant and 2 accounts clerk's/officers) stationed at the District Treasury Office.

The Audit found that records and back-up data were not retained from 2007-2012. The risk and impact it poses on management is very high on areas such as:

- Accountability of expenditures undertaken over the last 10 years;
- Location of assets that were purchased over the last 10 years that are not included in the asset register;
- Document trail accounting, auditing and management purposes; and
- Accuracy of acquitted reports submitted to the Department of Infrastructure and Rural Development (DIRD) and Department of Finance.

Management file documentation was very poor, including that:

- The files were stacked outside the treasury office accessible to the public;
- No filing cabinet exists;
- Minutes of meetings were not properly filed;
- Contract files were not maintained; and
- Personnel files were poorly managed.

## Chapter 1 Findings

### Funding allocation for DSIP

1.1 The **National Executive Council (NEC) Decision NG 414/2013** decision made on 18<sup>th</sup> November 2013, and subsequent **Finance Instructions 2/2014 & Finance Instruction 1 of 2015** directed for District Support Improvement Program and funding on sectoral basis. These key sectors are shown in Table 1.

**Table 1: Distribution of DSIP K10 million through sectors 2013-2016**

Sector	Funding Allocation	K10million total
Infrastructure	30%	K3million
Health	20%	K2million
Education	20%	K2million
Law and Justice	10%	K1million
Economic & Agriculture	10%	K1million
Administration	10%	K1million (K300,000 General Admin (30%)) (K300,000 MP Office Support (30%)) (K400,000 Project Mobilisation (40%))

Source: DSIP Administrative Guidelines 1B/2014 (1st January 2014).

### Total DSIP funds disbursed to GDDA for years 2007-2016

**Table 2: Total DSIP Funds allocated and Released to Gazelle District**

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>DSIP GDDA</b>	Not Available	4m	6m	5m	3m	2m	10m	10m	8.05m	10m
<b>Total</b>	<b>K58,050,000 (K58.05million)<sup>1</sup></b>									

Note 1: The K58.05 million is only the DSIP component for years 2008-2016, all the other grants that go into this account is not factored in this total.

Source: Department of Implementation and Rural Development audited report.

1.2 While the Gazelle district was notionally allocated K10 million per year, for a total of K90 million from 2008-2016. According to the Table 2, a total of K58.05 million was disbursed to Gazelle district as DSIP for that period, from the Department of Implementation and Rural Development records. The GDDA does not maintain any data or documentations to show that they received these funds.

## **Bank Accounts**

- 1.3 Part 6.1 of the Department of Finance, Financial Instructions 1 of 2015 regarding the **functional arrangement for the District Development Authority (DDA)**, states that the:

*District Development Authority will utilise the existing District/Provincial Treasury operating Account to make expenditure, payments and do receipting of DSIP funds until as and when need arises to establish another trust account then a formal request must be made to Secretary of Finance providing full explanations.*

- 1.4 The DSIP funds in Gazelle is managed under the account named “District Treasury Operating Account” (DTOA) with the Bank of South Pacific. The same account holds the districts other funds, including the:

- District Support Grants (DSG);
- National Agriculture Development Program (NADP); and
- Log Export Levy (LEL).

## **Data of Total Funds received not kept and reconciled.**

- 1.5 Audit review of the financial management of GDDA found that no records or ledgers were maintained to account for all the funds received.
- 1.6 The GDDA undertook no reconciliation of dispersed DSIP allocations with actual funds received by the District. Accordingly, the audit was unable to verify that the budgeted DSIP allocations have been disbursed across the District as intended.
- 1.7 Control weaknesses over recording of revenue can lead to fraud and poses a high risk of inaccurate accounting of revenue records.

## **Unavailability of records pertaining to years 2007-2012**

- 1.8 Audit review of the systems and controls surrounding the receipting and collection of revenues were noted to be weak and needed addressing. Including that the revenue data pertaining to years 2007-2012 could not be confirmed by AGO, due to poor records management at the GDDA.
- 1.9 The GGDA confirmed that no data pertaining to years 2007-2012 was kept at the Gazelle District. Without this financial data the district could not monitor and take stock of the assets and projects that were carried out in the district.

## **Data for 2013-2014 was partially maintained**

- Data for 2013-2014 was partially maintained but soft/hard copies of the Papua New Guinea Accounting System (PGAS) could not be obtained due to unavailability of PGAS Server at the District.
- AGO was advised that East New Britain was one of the Provinces where the Governments new Integrated Financial Management System (IFMS) was rolled out and all PGAS servers were replaced with the IFMS in 2016.

1.10 Without access to the records or back-up data, there is a very high risk and impact on areas such as:

- Accountability of expenditures undertaken over the last 10 years;
- Location of assets that were purchased over the last 10 years that are not included in the asset register;
- Document trail accounting, auditing and management purposes; and
- Accuracy of acquitted reports submitted to DIRD and Department of Finance.

#### *District Treasurer failed to allow AGO officers access to GDDA records*

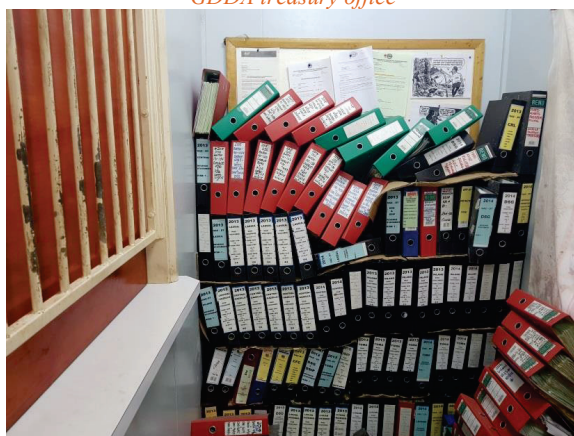
1.11 Despite the District Treasurer confirming and signing the Local Audit Query (LAQ) that no data was backed up and kept in the district, further audit inquiry with the District Accountant confirmed that they did maintain copies of the data for 2015 and 2016. This data was then made available to the audit team.

1.12 The attempt to keep government records from Auditor-Generals Office is a breach of section 213 & 214 of the National Constitution on the powers of the Auditor General.

#### *Document Management*

1.13 For accurate accounting and financial purposes, the Public Finance Management Act (PFMA) requires that financial data and information must be kept to account and record all transactions of the District Accounts. The PFMA also requires that all financial documents be maintained in a proper and secure storage area, to establish financial trails to expenditures which can be used by other financial entities as well a management to track expenses.

*Figure 1: Gazelle District Development Authority (GDDA) Financial Records stacked outside the GDDA treasury office*



1.14 GDDA was found to have poor controls regarding the management of financial records management, as shown in Figure 1. These files were stacked outside the treasury office which were easily accessible to the public. AGO found that there was:

- No filing cabinet to properly store the financial documents of the district;
- No documents pertaining to years 2007-2009 were kept;
- Minutes of Meetings were not properly filed, they should be filed and kept in the administrator's office;
- Contract files were not kept; and
- Personnel files were poorly managed.

## Recommendation 1

AGO recommends that the Gazelle District Development Authority (GDDA):

1. Ensures that financial records and data for financial years 2012 back to prior years are tracked and kept to ensure accountability of GoPNG DSIP funds.
2. Builds proper and secure storage rooms for records management to safeguard the records of the GDDA.
3. Properly and accurately records all funds received, and reconciles these to the District Treasury Operating Account (DTOA) on a timely basis and corresponds with the financial data that is sent by GDDA to Department of Finance Head Quarters in Port Moresby.

## Response

Gazelle District Development Authority agreed with findings.

## Chapter 2 Expenditure trend

### Conclusion

The strategic planning framework has not been fully implemented across the district and was not operating as intended.

Key documents, including the Five-Year District Development Plan, approved budgets and expenditure on sector programs not followed.

GDDA actual expenditure for years 2007-2016 did not follow the DSIP program guidelines. This resulted in sectors programs not receiving expected funding proportions, meaning that the intended benefits of the DSIP program was not appropriately spread around the District.

### Key Findings

Only data for 2013 to 2016 totalling K38.05million was tested due to the lack of available data and records for years 2007-2012.

From the audited funds of K38.05million, only K20.1 million was spend on the DSIP required sectors.

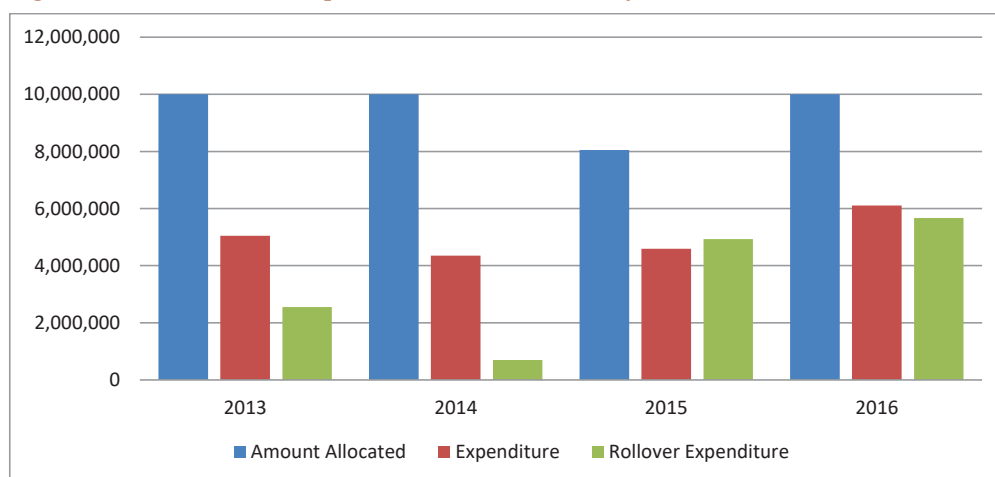
AGO notes that K17.95 Million from the 2013-2016 DSIP grants released is un-accounted for (equivalent to 47 per cent of released funds).

While K10million was released in most years from 2013 to 2016, total expenditure per sector was below 50% for 2013 and 2014. As a result, most of the programs for 2013 and 2014 were rolled over into years 2015 and 2016. The district has been mainly implementing rollover programs in recent years.

## Chapter 2 Findings

- 2.1 Only data for 2013 to 2016 totalling K38.05million was tested due to the lack of available data and records for years 2007-2012.
- 2.2 The audit noted that only K20.1 million was spent on DSIP approved sectors for the years 2013-2016 as shown in Figure 2.
- 2.3 Of the K38.05 million that DIRD has reported providing to GDDA from 2013-2016, a sum of K17.95 million is un-accounted for (equivalent to 47 per cent of received funds).

*Figure 2: DSIP revenue vs Expenditure in Gazelle District from 2013 to 2016.*

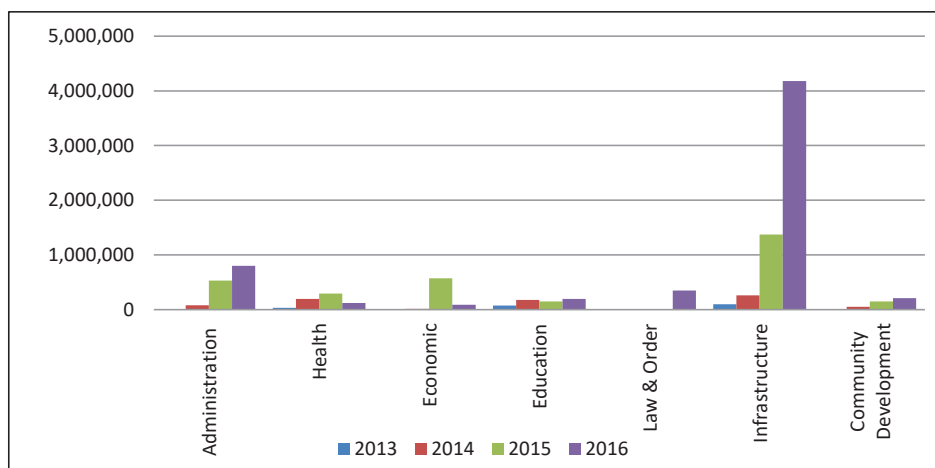


### Graph Narrative

- 2.4 Figure 2 shows that despite government releasing K10million to GDDA for three of the four years from 2013-2016, total expenditure was below 50% for 2013 and 2014. As a result, most of the programs for 2013 and 2014 were rolled over into years 2015 and 2016. The district has been mainly implementing rollover programs in recent years.
- 2.5 The DSIP funding guidelines (discussed in Chapter 1) state that the proportion of DSIP expenditure for each sector should be:
  - 30 per cent Infrastructure;
  - 20 per cent Health;
  - 20 per cent Education;
  - 10 per cent Law and Justice;
  - 10 per cent Economic & Agriculture; and
  - 10 per cent Administration.



**Figure 3: DSIP Expenditure by sector in Gazelle District for years 2013-2016**



2.6 Audit analysis of the expenditure against sector programs in Figure 3 found that GDDA did not fully roll out the its 5 year plan because the expenditures on all sectors in the 4 years were below the 50% mark for all sectors. The only increased expenditure over the 5-year period was on infrastructure (K4million in 2016). This figure (K4million) was higher than the threshold for one year (K2million) and was confirmed with GDDA that the additional, increase in Infrastructure spending in 2015 and 2016 was due to:

- Outstanding invoices on projects for prior years expenditure being carried forward covering years 2011-2014. Audit noted that most of the payments were based on minutes and resolutions from GDDA board from 2011-2014.

#### **Five (5)-year Plan for 2012-2017 was not fully implemented.**

- 2.7 Audit is of the view that the 5-year Plan for GDDA covering 2012-2017 was not fully implemented as the expenditure analysis shows that all the goals of the plan were not fully achieved.
- 2.8 The GDDA five (5)-year development plan lapsed at the end of 2017 and should be replaced with a new multi-year development plan that will guide GDDA and drive developments.

## Recommendation 2

AGO recommends that the Gazelle District Development Authority (GGDA):

1. Complies with the funding guidelines of DSIP by sector and implement the sector programs accordingly to ensure that services are delivered to the population according to the government's plan by sector.
2. Establishes a monitoring system to track expenditure by program against its DSIP expenditure in Gazelle District, so that it can clearly track its level of development against its development plan.
3. Replaces the five (5)-year development plan which lapsed at the end of 2017 with a new multi-year development plan that will guide GGDA and drive developments.

## Response

Gazelle District Development Authority agreed with findings.

## Chapter 3. Expenditure not in line with the DSIP Guidelines

### Conclusion

DSIP funds are intended to be spent on the sectors identified in the DSIP guidelines. However, it was noted that a considerable amount of DSIP funds was expended on items outside the DSIP guidelines such as: Token of appreciation; Wages; School Fees Assistance; and sustaining its business arm, the Gazelle District Road Management Unit (GDRMU).

AGO further concludes that, due to the costs associated with maintaining a business arm without a funding source, it is advisable that management review its decision to maintain GDRMU and whether the benefits outweigh the costs.

The District Support Grants (DSG) and DSIP funds that come into the DTOA should not be used to maintain GDRMU. This is a breach of the financial guidelines, which states what DSG and DSIP funds can be used for.

### Key Findings

Audit review uncovered that the Officers were paying themselves cash/cheque payments known as 'token of appreciation' for working overtime and/or other reasons only known to them. In 2015 and 2016, the audit found that a total of K125,989 was paid as token of appreciation to the GDDA officers, and mostly to senior public servants.

Audit review of expenditures incurred by GDDA in 2015 and 2016 found that a substantial amount of administration funds (totalling K200,813) was used to pay the wages of casual staff. AGO further noted that, thirteen (13) casual staff currently engaged by GDDA, had been casual employees for more than three (3) years, exceeding the six (6) month allowable probation period.

It was also uncovered that two 'Ghost' employees were being paid wages from the District Treasury Operating Account (DTOA).

Proper planning and cost benefit analysis were not done to assess whether GDDA had the capacity to sustain the Gazelle District Road Management Unit (GDRMU) which is a Business arm of GDDA. A considerable amount of GDDA DSIP funds had been used to sustain, as well as maintain, GDRMU and its machineries. The GDDA could not provide the total revenue that was received for GDRMU for years 2007 to 2012.

The GDRMU's current practices of leasing machinery to construction contractors poses a very high risk of collusion. The GDDA officers and contractors could defraud the State through this arrangement, whereby the State is paying for the hire of machinery that it already owns.

A total of K1.3 million was paid as school fees assistance from the DSIP funds between 2015 and 2016. The guidelines for DSIP clearly states that it is a "service" improvement program and not a grant to individuals.

The audit also found a fraudulent payment totalling K18,000 made to AIM GLOBAL Networking Pyramid Money scheme in the disguise of school fee assistance.

## Chapter 3 Findings

### Token of appreciation payments

- 3.1 Audit review uncovered that a number of mostly senior permanent public servants were paying themselves cash/cheque payments known as 'token of appreciation' for working overtime and/or other reasons known only to them. For the 2015 and 2016 period, the audit found that a total of **K125,989** were paid as token of appreciation to the officers.
- 3.2 These officers are already paid a fixed salary to carry out official government duties. Receiving such a token is seen as **Double Dipping**. This is an abuse of public funds allocated for projects and the running of the Administration, which is in breach of Public Financial Management Laws and Public Service General Orders.

*Table 3: Summary of payments made as token of appreciation for years 2015 & 2016*

Year	AMOUNT
2015	39,948.00
2016	86,041.00
<b>TOTAL</b>	<b>125,989.00</b>

- 3.3 The audit further found that tokens of appreciation totalling K24,200 were suspiciously made on the 31<sup>st</sup> of December in both 2015 and 2016, after the annual close of accounts and shut down of government offices.
- 3.4 These payments are in breach of the DSIP guidelines as well as the general orders on the payment of allowances.
- 3.5 The District Treasury Operating Account (DTOA) should not allow for irregular payments that are not in line with the policies and legislations of the government. Nor should officers with financial position of trust abuse their positions to operate systems outside of the normal guidelines and legislations.
- 3.6 In 2015 and 2016, the audit found that a substantial amount of the administration and internal revenue funds component (totalling K200,814) was used to pay the wages of casual staff.

### **Payment of Salaries and wages out of the DSG and DSIP accounts**

**Table 4: Total Wages paid from the District Treasury Operating Account**

Year	Number of payments	Total
2015	111	K76,380.84
2016	222	K124,433.00
<b>Total</b>	<b>333</b>	<b>K200,813.80</b>

- 3.7 According to the Human Resource Staff Establishment Register obtained, there were 13 casual staff working with the District at the time of the audit. All 13 casuals had been working (as casuals) for more than 3 years, exceeding the 6 months' probation period. The long-term casual staff should have been made permanent by now (depending on the need of the job they are doing) or laid off to cut administration cost on staff wages.

### **Ghost Names paid wages from Gazelle District Trust Operating Account (DTOA)**

- 3.8 The audit also found that three (3) payments totalling K900 were paid in 2016 to two (2) individuals whose names were not on the Human Resource Staff Establishment Register. Such individuals are referred to as 'ghost' names.

### **Gazelle Development Road Management Unit (GDRMU)**

#### **Problems with sustainability**

- 3.9 GDRMU was formed back in 2007 as a business arm of the GDDA, when heavy machinery plant and vehicles were acquired to be used to develop Gazelle district. The audit found that proper planning and cost benefit analysis were not done to assess whether GDDA had the capability to sustain this business idea over the long term.
- 3.10 Audit uncovered that from 2008 to 2012 GDRMU started facing management problems with maintenance of the machines and payment of GDRMU staff. Audit found that GDDA DSIP funds were being used to sustain as well as maintain GDRMU and its machinery.
- 3.11 GDRMU did not have a funding source and was solely depended on the GDDA Treasury Account which holds DSG and DSIP funds to pay for:
- the wages for GDRMU staff;
  - maintenance of the fleet; and
  - fuel for operations.

***Inconsistencies in the Billing and Receipting for GDRMU raises concerns of fraud taking place.***

- 3.12 The GDDA could not provide the total revenue that was received for GDRMU for years 2007 to 2012. It was also noted that invoices for the usage of GDRMU machinery were being raised by contractors and were cleared for payments. This practice poses a high risk of fraud because GDDA should not be paying contractors for machinery that they already own. Without a clear receipting system in place, the risk of theft and fraud is very high.
- 3.13 The current practice is that machinery is leased out to construction contractors who in turn raise the invoice inclusive of GDRMU leased machinery back to the DTOA for payment. This practice of leasing out and invoicing GDRMU machines poses a very high risk of collusion between GDDA officers and contractors to defraud the State, whereby the State is paying for the hire of machinery that they already own.
- 3.14 GDRMU are currently operating the following machinery that were inspected by audit:
- 1x Loader;
  - 1x Roller;
  - 1x Backhoe loader; and
  - 1x Hino Earth Moving Truck.
- 3.15 Audit also found that there were no clear invoicing and receipting process for the hire of equipment, and individuals managing them fail to produce revenue listing or ledgers for machinery hire. Audit is concerned that the risk of misuse of GDDA assets benefiting a few individuals, has been found here to be high and urgently in need of addressing.
- 3.16 It was also noted that some machinery has now been grounded due to special maintenance needs and parts that can only be sourced from specialist and expensive companies.

*Figure 4: Some of the GDRMU machinery that needs maintenance and replacement.*



3.17 The malpractices in the District has denied the much-needed services and infrastructure to the district. GDDA should ensure that these findings are taken seriously and address them.

3.18 It should also be noted that public officers and contractors dealing in corruption can be imprisoned up to seven years as specified under sections 61, 62, 87 and 9B of the Criminal Code 1974.

### ***School Fee's Assistance***

3.19 A total of K1.3 million was paid as school fee's assistance from the DSIP funds between 2015 and 2016.

*Table 5: Total Paid as school fee's assistance for years 2015 & 2016*

Year	School fee's assistance from DSIP
2015	K1,118,813
2016	K 162,200
<b>Total</b>	<b>K1,281,013</b>

3.20 The guidelines for DSIP clearly states that it is a “service” improvement program and not a grant to individuals. So, any expenditure on school fees is outside the DSIP guidelines.



### **Questionable payment totalling K18,000 made to AIM GLOBAL as school fee assistance in 2015**

- 3.21 Audit confirmed that there are no schools in Papua New Guinea called Aim Global and therefore concluded the K18,000 payment for 'school fee assistance' in July 2015 is suspicious of being a fraudulent activity. A fraud where the officers intentionally made a dubious payment to the money pyramid scheme Aim Global in the disguise of school fee assistance.
- 3.22 Appropriate action should be taken against the Education Coordinator and all officers charged with overseeing school fees with regards to the suspicious payment.

### **Recommendations 3**

AGO recommends that the Gazelle District Development Authority (GGDA):

1. Immediately stop all expenditures out of the DSIP funds that are not in line with the funding arrangements. Appropriate disciplinary/legal action is also required against:
  - Officers who abused their authority to pay themselves excessive "Tokens of Appreciations";
  - Officers responsible for using GDDA funds to pay salaries for individuals who are not employed by the district (termed 'Ghost Names' in this audit); and
  - Officers that were responsible for making a payment of K18,000 in the disguise of School fee assistance to the pyramid scheme 'Aim Global'.
2. Should not use the District Support Grants (DSG) and DSIP funds that come into the District Treasury Operating Account (DTOA) to maintain GDDA's business arm Gazelle District Road Management Unit (GDRMU). This is in breach of the DSIP guidelines.
3. Review the long term viability of maintaining the GDDA business arm GDRMU, and whether the benefits outweigh the costs of continuing it.

### **Response**

Gazelle District Development Authority agreed with findings.

## Chapter 4. Procurement of Infrastructure and the tendering process

### Conclusion

Audit observed that the District did not have qualified engineer/personnel to review infrastructure designs, or to ensure that projects, costs, designs, and monitoring was done in a manner consistent with the allowable standards.

The Finance Instruction establishes procedures for the screening, selection and approval of service providers. Gazelle District has performed very poorly against these requirements due to lack of quotations, ineffective tender processes, poor selection of preferred suppliers/contractors, splitting of project costs to circumvent the procurement requirements and proper approvals/authorisation not being obtained.

There appear to be limited processes in place to manage and monitor the progress of projects, or the performance on sub-contractors. There is limited use of signed contracts to formalise the sub-contracting relationship with service providers.

The poor controls surrounding procurements of infrastructure and the tendering processes has increased the risk that value for money is not being achieved by the GDDA, due to competitive tender processes not taking place. Further, limited use of a competitive tender process increases the risk of irregularities and fraud. This was evident in the number of uncompleted projects, and ghost project that were uncovered during the audit that are highlighted in the key findings

### Key Findings

Audit noted weaknesses in the procurement controls at the GDDA including payments being split in order to work around the procurement requirements of the Public Finances (Management) Act and the Finance Instruction.

Further, the process of requesting quotations is non-existent and the authorisation of purchase orders is limited. This results in:

- Bypassing of government procurement process;
- Over-inflated costs;
- Rollover projects;
- Incomplete projects; and
- Non-Existent projects.

Audit noted that Gazelle District Development Authority did not have qualified engineer/personnel to review infrastructure designs, or to ensure that projects, costs, designs and monitoring was done in a manner consistent with the allowable standards.

The Project Initiation and Formulation Documents (PID/PFD) are poorly designed and documented without proper scrutiny and assessment by qualified technical engineers to give a realistic cost of the project before the awarding of contracts. As a result of poor project documentation and engineering scoping design in the initial stage of project

planning, most projects funded were not completed on time, were carried over to following year and/or remained outstanding.

The audit uncovered a “ghost project” whereby K3million was spent to build a market in Kerevat, but to date there is nothing but an empty plot of land at the site of the proposed Kerevat Market.

The audit also found that K489,782 had been spent on another “ghost project” Tokiala Fibre Glass Project during 2015-2016. The audit confirmed through site inspection that this project does not exist, except for a fenced area and a small makeshift office.

The audit is concerned that there was a conflict of interest between the Chairman of the GDDA and the company that was engaged to build the Tokiala Fibre Glass Project. The GDDA Chairman was a director of the company when it registered with IPA on the 2<sup>nd</sup> of February 2015, and the audit found that directives were issued by the chairman to pay for invoices that related to this project for years 2015-2016.

Audit inspections revealed that a number of projects under taken by GDDA were left incomplete despite being paid the full project funds. Most of these projects were undertaken by the same suppliers and have been rolled over from the previous years.

## Chapter 4 Findings

### *Procurement processes in the DDA guidelines as well as Public Finance Management Act and Finance Instruction 1 of 2015 not adhered to.*

- 4.1 The audit observed that the District did not have qualified engineer/personnel to review infrastructure designs, or to ensure that projects, costs, designs and monitoring was done in a manner consistent with the allowable standards.
- 4.2 The audit found that the Project Initiation and Formulation Documents (PID/PFD) were poorly documented without proper scrutiny and assessment by qualified technical engineers to give a realistic cost of the project before the awarding of the contract. This has resulted in high additional inflated cost and/or variation cost to the projects and the completed projects does not reflect the real value of money spent. As a result of poor project documentation and engineering scoping design in the initial stage of project planning, most funded projects were not completed on time, and were carried over to following year and/or remained outstanding.

### *Use of Third Party for tendering out GDDA projects*

- 4.3 The audit found that the GDDA contracts out some of the major Infrastructure projects to the Gazelle Restoration Authority (GRA). The GRA is not a construction company, but a consultancy entity of the East New Britain Province.
- 4.4 Payments under this arrangement are a waste, as the funding for the program is spent on consultancy fees instead of the intended project.

### ***Less than 300 meters of the road sealed for K1.8 Million***

4.5 An example of a GDDA project to include the GRA as a middleman, is the VURAVURAI Road Project. This project used K1.8million (almost 98% of Infrastructure allocation) for re-resealing 300 metres of an existing road at Vuravurai.

4.6 Under this arrangements all tender and contract documents for this road project was managed by GRA. GRA's consultancy fees for the K1.8million project totalled K500,000 (almost 28% of the project funding).

***Figure 5: Vuvurai Road less than 300meters resealed for K1.8 million***

**Photo of VURAVURAI- 200m Road Re-Ceiling Project**



**Photo 2. Vuravurai UNDER ROAD WATER CULVERT**



### **Examples of GDDA projects with poor procurement of project management practices**

4.7 The audit found a number of examples of poor procurement or project management practices in Gazelle District, including:

- Kerevat Market;
- Tokiala Fibre Glass Project;
- Utmei Aidpost upgrade;
- Vunapalading Construction of the Kerevat Health Centre Nurses Duplex;
- Kerevat Rural Hospital X-ray Room Renovation; and
- Maintenance work at Kerevat Rural Hospital.

### **Incomplete Kerevat Market at the Cost of K 3 million**

#### **4.8 Key Findings for this project:**

- No Contract or Project Initiation Document;
- Over inflated cost;
- Tendering document not found (above K500,000); and
- No Progressive work reports to justify payments.

4.9 Despite paying K3million for the construction of the Kerevat Market, there is nothing to show for that expenditure, see Figure 6.

*Figure 6: Image of the empty space taken in November 2017 where the proposed K3Million Kerevat Market was to have been built.*



4.10 All officers that were involved in the project should be held accountable and investigated for possible intentions to commit fraud.

### **Incomplete Tokiala Fibre Glass Project, cost of K489,782.30 in 2015 and 2016**

#### **4.11 Key Findings for this project:**

- No Contract or Project Initiation Document;
- Over Inflated Cost;
- Tendering Document not found (above K500,000); and
- No Progressive work reports to justify payments.

- 4.12 Despite payment of **K489,782.30** for years 2015 and 2016, the audit inspection of the site revealed that the amount of work done does not reflect the amount of money spent.

*Figure 7: Image shows the empty space and the fencing for Tokiala Fibre Glass, taken in November 2017*



### Conflict of interest in the Tokiala Fibreglass Project

- 4.13 Company search shows that the former Chairman of GDDA was a director of the company when it registered with IPA on the 2<sup>nd</sup> of February 2015 and had shares in the contractor engaged to deliver this project.
- 4.14 Review of the payment documents found that directives were issued by the former chairman of GDDA to pay for invoices that related to this project which **totalled to K489,782** despite not having any project monitoring or progress reports to justify them being paid.
- 4.15 The subsequent payments from the District need to be investigated for fraud because the inspection exercise that was carried out by the audit on the 8<sup>th</sup> of November 2017 found that there was nothing in the proposed site for the Fibre Glass Project to justify for the amounts of funds that was released on the directive of the Former Chairman.
- 4.16 Audit found that there were no progressive work reports to justify the amount of funds that were released for this project.



### *Utmei Aidpost Upgrade, cost of K321,000*

#### 4.17 Key findings for this project:

- People with no access to health services due to incomplete project;
- No Contract;
- No Project initiation Document;
- Resource Wastage;
- Over Inflated Cost;
- Tendering Document not found; and
- No Progressive work reports to justify payments.

*Figure 8: Utmei Aidpost left unfinished and unoccupied due to incomplete infrastructure and bad planning.*





- 4.18 Prior to AGO inspections, the building was listed as 100% complete from the list obtained from the infrastructure program officer. Audit inspection found the building was incomplete and was covered with overgrown brush.

***Construction of Duplex Building for Kerevat Hospital On-call Nurses at Vunapalading, cost of K320,000***

- 4.19 Located 30 minutes' drive away from the Kerevat Rural Hospital this facility was supposed to have been used for on call nurses.
- 4.20 Key findings for this project:
- No Contract;
  - No Project initiation Document;
  - Resource Wastage;
  - Over Inflated Cost; and
  - No Progressive work reports to justify payments.
- 4.21 GDDA paid the construction company the full cost of K320,000 and listed the house as completed in the infrastructure listing. The audit inspection found that the house was incomplete, with no water connections and no electricity. The audit inspection of the property noted that the wood used to construct the property was starting to show signs of termite infestation and the building was starting to rot away. This was despite it being a new building that was not yet occupied.
- 4.22 The Contractor should be held accountable for the gross wastage of GDDA funds and made to complete the building with its own funds or appropriate action taken on future business engagements with the supplier.

**Figure 9: Vunapalading Uncomplete Construction of the Kerevat Health Hospital Oncall Nurses Duplex**



- 4.23 AGO noted that the same contractors have been given new projects at the time of audit despite failing to complete infrastructure projects at Utmei Aidpost Upgrade and Vunapalading Duplex Building.
- 4.24 The GDDA have shown gross negligence of their roles and responsibilities to ensure that much needed services and infrastructure is provided to the people of the Gazelle district.

#### ***Need for an on-call hostel for Nurses at Kerevat Rural Hospital***

- 4.25 With the on-call Nurses accommodation described above being unfinished, personnel at Kerevat Rural Hospital advised the audit that On Call Nurses did not have a place to stay when on duty. A Storage Room was used by nurses as the temporary live in quarters, which is cramped.

*Figure 10: Current Facility used by on call nurses at Kerevat Rural Hospital. A makeshift store-room converted to sleeping room.*



4.26 The audit also found that there was enough land inside the Kerevat Rural Hospital premises to build an on call hostel for the nurses and medical officers. This would appear to be a more sensible option than a facility that is located 5 kilometres away from the Hospital.

#### **Kerevat Rural Hospital Uncompleted X-ray Room Renovation, cost of K121,588**

4.27 Key Findings for the project:

- Incomplete;
- Over Inflated Cost;
- Wastage of resource;
- No progressive reports to justify payment; and
- Breach of normal procurement processes to engage contractor.

4.28 Audit found that the X-ray room was incomplete and also the equipment that was bought for the X-ray room was still sitting idle in the District Health Sector Program Officer's office.

4.29 Procurement Requirements and the health standard design requirements for an X-ray room were not followed to construct this vital part of the Kerevat Rural Hospital. The construction was also undertaken by an individual which is a breach of the Finance Management Act and the DSIP guidelines.

*Figure 11:Image of the incomplete X-ray room*



**Payment to an individual person totalling K30,000 in 2014 for work that was not verified by audit.**

- 4.30 Audit inspection of the Rural Hospital could not verify and confirm the work that was done by the individual that was paid K30,000 on 24 December 2014 for maintenance services at the Kerevat Rural Hospital. The GDDA also did not provide any details as to the work done, why an individual was engaged, or who requested and approved this work.
- 4.31 GDDA should seriously take into consideration the quality and qualifications of officers that it currently employs in the administration and up skill them or advertise for skilled personnel that are efficient and effective in delivering tasks and programs.
- 4.32 Officers Responsible should be held accountable for the incomplete projects as they initiate the project identification, project scoping and monitor and report project results.
- 4.33 Audit recommends that management adhere to the Governments set rules, procedures and regulations as per the Finance Instructions, ORD Administrative Guidelines and PFMA in awarding contracts to the contractors.

## **Recommendation 4**

AGO recommends that the Gazelle District Development Authority (GGDA):

1. Takes appropriate management action on the Contractors and Officers tasked to manage the projects listed below:
  - Kerevat Market — non-existent despite spending K3 million;
  - Tokiala Fibre Glass Project — non-existent despite spending K489,782.30;
  - Utmei Aidpost upgrade — unfinished despite spending K321,000;

- Vunapalading Construction of the Kerevat Health Centre Nurses Duplex — unfinished despite spending K320,000;
  - Kerevat Rural Hospital X-ray Room Renovation — incomplete despite spending K151,588; and
  - The maintenance invoice for work at Kerevat Rural Hospital (KRH) totalling K30,000 being paid to an individual, which the AGO could not verify.
2. Establishes controls on Procurement & Tendering to ensure compliance with the DSIP guidelines, PFMA and relevant legislations. This should ensure that project designs, costs, monitoring and reporting is done in a manner consistent with the allowable standards.
  3. Reviews the quality and qualifications of officers that it currently employs in the administration. This review should be conducted in consultation with the Provincial Works Office. The GGDA should upskill current staff or advertise for skilled personnel that are efficient and effective in delivering tasks and programs.

### Response

Gazelle District Development Authority agreed with findings.

## Chapter 5. Management of fixed assets

### Conclusion

The Gazelle District Development Authority (GDDA) did not maintain proper records of fixed assets. The assets themselves were also not properly maintained, or managed, as required by the Public Finance Management Act on Asset Management. The lack of maintaining and updating an asset register creates the potential of mismanagement and theft of GDDA assets.

The East New Britain Provincial Government Transport Policy needs to be reviewed, as the policy of disposing of all vehicles after 3 years is costly and has negative flow-on effects to the programs of the GDDA.

### Key Findings

The historical total value of all Gazelle District Development Authority (GDDA) assets maintained in the asset register was **K10,645,103.00**. However, the asset register was incomplete and does not capture full details of assets purchased over the years, or their current market value. Also, a large number of assets were either not located or identified as damaged during the course of the audit.

In compliance with the East New Britain Provincial Government Transport Policy, the GDDA was to dispose of more than 45 motor vehicles (including heavy equipment) with a total valuation amount of K1,313,950, as they were over 3 years old.

Due to poor historical asset management data and records maintained, the audit could not ascertain the actual economic value of the motor vehicle fleet as at current date of disposal. It was also noted that some of the vehicles that were to be disposed of were not even registered in the asset register that was maintained at the GDDA.

## Chapter 5 Findings

### Asset Management

- 5.1 The historical total value of assets maintained in the asset register records was **K10,645,103.00**. The audit found that the asset control environment for Gazelle District Development Authority was generally weak.
- 5.2 The audit noted that the records in the asset register were incomplete. For instance, a long base Hino Truck purchased in 2016 at a cost of **K92,500.00** was not captured in the asset register records. Other assets such as laptops or cameras were not captured in the asset register.
- 5.3 There was no stock-take of assets conducted annually to verify their existence or the condition of the assets. The 'wear and tear' costs (Depreciation Cost) of the assets was not reflected in the register, so the market value as at a current date could not be determined.



***ENB Provincial Transport Policy requires Government Vehicles and assets to be disposed of after 3 years.***

5.4 The ENB Provincial Transport Policy requires Government Vehicles and assets to be disposed of after 3 years. In line with this policy, the GDDA disposed of a total of 45 vehicles (including heavy equipment) with a total valuation amount of **K1,313,950.00**. According to the Tender documents, the disposal was undertaken through an approval by Board of Survey (BOS) in 2016.

5.5 Due to the poor historical asset management data and records maintained, the audit could not ascertain the actual economic value of these vehicles as at the date of disposal. It was also noted that some of the vehicles that were to be disposed of were not listed in the asset register.

***Vehicle replacement will put a strain on DSIP funds that is meant for service delivery***

5.6 The ENB Provincial Transport Policy should be reviewed. Disposing of a large number of vehicles at the same time, significantly affects the ability of staff to travel for work purposes. Furthermore, it is very costly to replace vehicles after only 3 years. With development funds ceiling being reduced each year, constantly purchasing vehicles and machinery will put pressure on the limited funds available for programs.

***Figure 12: Images of the 48 GDDA vehicles that were pooled to be disposed of in accordance with the ENB Transport Policy to replace vehicles after 3 years***



## Recommendation 5

AGO recommends that the Gazelle District Development Authority (GGDA):

1. Undertake a stocktake of all government assets, building, plant, equipment vehicles furniture's and fittings, and a centralised asset management system is developed and maintained by a dedicated officer to ensure that all assets are accounted for.
2. Have a dialogue with the East New Britain (ENB) Provincial Administration to review the policy for disposing of vehicles after 3 years. This is a costly exercise and the GGDA has no budget for buying new vehicles or machinery for the DSIP sectoral programs.

## Response

Gazelle District Development Authority agreed with findings.



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