BANK OF PAPUA NEW GUINEA
FINANCIAL ANALYSIS AND SUPERVISION UNIT

TYPOLOGY REPORT:
FRAUD AND MONEY LAUNDERING WITHIN THE PROVINCIAL HEALTH AUTHORITIES IN PAPUA NEW GUINEA

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PROVINCIAL HEALTH AUTHORITY

WHAT IS IT?

The Provincial Health Authority (PHA) is a public body that integrates the management of a hospital and primary health services within a province. It is a reformed structure established to improve healthcare delivery by managing both hospital and public health services under one authority. The PHA system in Papua New Guinea (PNG) was introduced in the early 2007 as part of the broader health sector reforms. The PHA's legal mandate is derived from the *Provincial Health Authorities Act 2023 (as amended)*, to improve the effectiveness, efficiency, and accountability of healthcare delivery in order to address the challenges associated with centralized decision-making and resource allocation in the health sector.

The provincial government appoints the board of directors to govern the PHA and be responsible for all health matters within the province. The board of directors comprises of representation from various stakeholders, including health professionals, community leaders, and government officials. The PHAs are further subjected to the *Public Finances Management Act 1995* where they must adhere to the financial reporting and accountability standards.

The responsibilities of the PHA include:

1. Planning, budgeting, financial management and service delivery for healthcare services at the provincial level.
2. Recruitment, training, and deployment of healthcare workers.
3. Implementing public health programs and initiatives.
4. Monitoring and evaluating the performance of healthcare services and programs within the province.

The PHA is funded by the national government and operates within the broader framework of the National Department of Health (NDoH).[1]

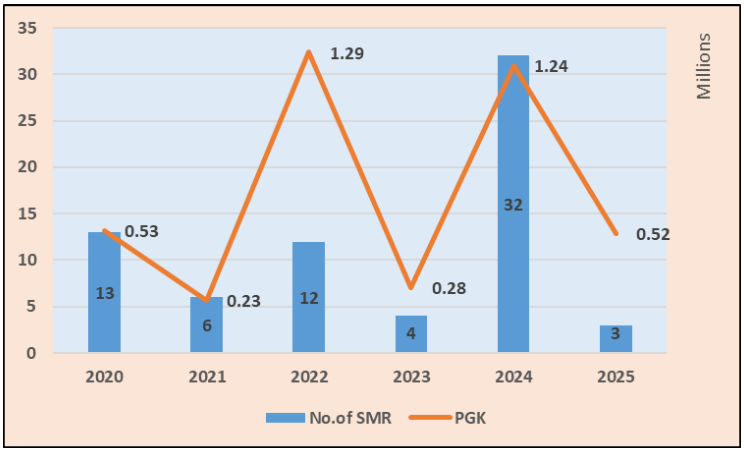
FRAUD AND MONEY LAUNDERING WITHIN THE PROVINCIAL HEALTH AUTHORITIES IN PAPUA NEW GUINEA

All government establishments such as the PHA's are meant to improve delivery of government services and be effective, efficient and accountable, however over time they have become a targeted vehicle for fraud and abuse in PNG. PHA is no exception.

Trend analysis conducted by FASU using its data holdings for a period between May 2020 and February 2025 reveals concerning trends and patterns that highlight systemic fraud and self-motivated system-abuse by senior officials and staff by taking advantage of weak financial controls within PHA. The trends reveal a good number of suspicious matter reports (SMRs) based on suspicion of manipulated payroll systems, misappropriated public funds, and unauthorized payments facilitated within the PHA, which effectively reveals a growing typology within the sector.

Suspicious Matter Reports

Between May 2020 and February 2025, 70 suspicious matter reports (SMR) relating to potential PHA fraud, were reported to FASU with an aggregate value of K4.08 million (USD996,970).



Pic 1: *Reported SMRs between May 2020 and February 2025*

Indicators of Fraud and Money Laundering within Provincial Health Authorities in Papua New Guinea

The following are common scenarios that highlight the manner in which fraud and money laundering may be occurring within the PHA.

Scenario 1: Payroll Fraud
• Large gratuities paid to a certain PHA staff with no proper documentation and approval. • Large unexplained bonus payments made to multiple PHA staff who may be part of the fraud syndicate.

[1] https://pngmedicalblog.com/2024/04/18/the-provincial-health-authority-system-in-papua-new-guinea/

Scenario 2: Procurement Fraud
Unjustified procurement payments made to personal bank accounts and business accounts without proper documentation and reasoning.
Scenario 3: Personal Enrichment
• Sudden unexplained payments made into personal accounts of individuals that have no relation to PHA. • Frequent significant cash deposits that are inconsistent with salary levels of PHA staff.
Scenario 4: Conflict of Interest
• Procurement payments raised to companies or personal bank accounts of PHA staff members and related parties. • Senior PHA officials offering or approving contracts to relatives or associates.
Scenario 5: Insider Collusion
Collusion between employees and vendors, often leading to inflated invoices/costs or substandard service delivery.
Scenario 6: Abuse of Power
Signatories of PHA bank accounts raising requisitions and approving significant payments to their personal bank accounts for unexplained reasons and without proper documentation.
Scenario 7: Excessive Travelling Allowances
Encashment of bulk service provider payments, purported for accommodation, meetings/workshops venue hires and vehicle hires, coupled with domestic travel allowances/per diems for PHA staff in thousands of kinas. This practice defies government accountability and governance mechanisms set up for proper use and acquittal of public funds. Payments for accommodation and vehicle hire paid in cash to staff without proper supporting documentation which is highly irregular and is fraudulent especially when PHA staff receiving these payments are then conducting personal transactions other than duty-related expenses.
Scenario 8: Tax Evasion
A business owner providing a certain service instructs a certain PHA to make legitimate rental payments into his personal account to evade paying taxes and reporting obligations with kickbacks to the facilitator.
Scenario 9: Loan Repayments
Unjustified payments to business entities described as "loan repayments" for loans purportedly acquired by a certain PHA.

Risk Patterns Identified

The following risk patterns were identified:

1. **Weak Financial Controls**
   Weak financial controls allow officials to misappropriate funds, authorize illegitimate payments, or manipulate procurement processes. It also creates the opportunity for bribery, fraud, embezzlement and kickback to thrive where the risk of detection is quite low.

2. **Lack of Segregation of Duties**
   Certain individuals seem to be in complete control of multiple steps for payment processing, approval and reconciliation. Without these internal controls in place, it poses the serious risk of error, manipulation and fraud.

3. **Payroll Fraud**
   Payroll fraud is mostly orchestrated by officials within the human resource and finance, who are very knowledgeable of the payroll process and are privy to sensitive and non-public information such as employee records, salary processing systems and bank details. This technical know-how is then abused to their advantage to manipulate the payroll process, while exploiting the loopholes in the internal systems and controls, to facilitate unauthorized payments for their own benefit.

4. **Procurement Fraud**
   a) ***Rigged bidding processes:*** Unjustified procurement payments made to an individual or business account is an evidence of a business arrangement made without proper bidding or through rigged processes.
   b) ***Conflict of interest:*** Procurement contracts are being awarded to relatives, associates and companies owned by employees of PHA.
   c) ***Insider Collusion/Bribes:*** Employees are colluding with vendors to seek payment over an inflated claim where the employee benefits from the kickback as commission.

5. **Tax evasion**
   Business owners deliberately fail to declare both legitimate and illegitimate income by instructing PHA to remit payments directly into the business owner's personal bank account and paying kickbacks to facilitators.

6. **Absence of Audit**
   Lack of audit is a critical governance failure which gives rise to the risk of fraud, mismanagement, misappropriation and systematic corruption. Audits are essential mechanisms for ensuring accountability, transparency, and integrity in the management of public funds and operations.

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