

**Governments of Australia and Papua New Guinea**  
**Provincial Capacity Building Program Phase II (PCaB II)**  
**Draft Evaluation & Validation Report**

Independent Reviewer – Peter Heijkoop

Draft for Discussion Purposes Only

**3 October 2014**

*Draft for Discussion Purposes Only*

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## Acronyms

CFC	Cash Fund Certificate
COA	Chart of Accounts
DFAT	Department of Foreign Affairs and Trade, Australian Aid Program
DOF	Department of Finance
DOT	Department of Treasury
DP	Development Partner
DPLGA	Department of Provincial and Local Government Affairs
DSIP	District Services Improvement Program
DTO	District Treasury Office
DTROP	District Treasury Roll Out Program
EHP	Eastern Highlands Province
ENB	East New Britain Province
FMIP	Financial Management Improvement Program
FTB	Financial Training Branch
GOPNG	Government of Papua New Guinea
ICT	Information Communication and Technology
ICTD	Information Communication Technology Division, Department of Finance
IFMS	Integrated Finance Management System
KPI	Key Performance Indicator
LLG	Local Level Government
LLGSIP	Local Level Government Services Improvement Program
MBP	Milne Bay Province
MOU	Memorandum of Understanding
MTR	Mid-Term Review
NEFC	National Economic Fiscal Commission
OLPLLG	Organic Law on Provincial and Local-Level Governments
PAC	Provincial Audit Committee
PCaB II	Provincial Capacity Building Program Phase II
PDFMD	Provincial Districts Financial Management Division
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PFMA	Public Finances (Management) Act 1995
PGAS	Papua New Guinea Government Accounting System
PLGP	Provincial and Local Government Program
PNG	Papua New Guinea
PPII	Provincial Performance Improvement Initiative
PSIP	Provincial Services Improvement Program
PTO	Provincial Treasury Office
TOR	Terms of Reference
UNDP	United Nations Development Program

## Executive Summary

### Background

PCaB Phase II (“the Program”) is a cost-sharing partnership between GOPNG, Australian Department of Foreign Affairs and Trade (DFAT) and UNDP. UNDP administers the Program, which is nationally executed by DOF. Funding to date (2008-2014) is - UNDP USD1.4m (10%); DFAT cost sharing USD9.6m (72%) and DOF counterpart funding USD2.4m (18%). Total Program budget over 7 years is USD13.4m; an average annual cost of USD1.9m, or PGK4.7m.

Building on PCaB Phase I, the Program was a five-year initiative in 6 pilot provinces<sup>1</sup> (2008 - 2012). In 2010, the Program Steering Committee endorsed a Mid-Term Review recommendation to extend Phase II for two more two years, 2013 - 2014; and to work in four more provinces. This decision deferred any Program redesign to after the 2012 General Election; and gave time to transition to a whole-of-PNG strategy for better sub-national PFM.

This Independent Review (“Review”) is intended to inform the next whole-of-PNG strategy for sub-national PFM capacity building, including consideration of any Program extensions.

### Methodology

The Review adopted a structured methodology for the evaluation and validation process; involving both qualitative and quantitative approaches. Steps taken were a Desk Study and data requests; two in-PNG site visits that included four provinces (EHP, MBP, Madang, ENB); and an in-PNG seminar to test conclusions and recommendations. The Review took place between 10 May and 3 October 2014.

DOF could not provide complete Cash Disbursements data for provinces, 2008-2013, which is a significant constraint on the Review. DOF continues to search for this data.

### Main Findings

GOPNG has 25 years experience of development partner assistance to sub-national PFM capacity building. DFAT and UNDP have funded six initiatives in this area in the past 15 years.

Sub-national PFM capacity building is relevant to development in PNG. Especially as policies on sub-national fiscal transfers and implementation modalities are changed to improve service delivery. For example, funding for Provincial, District and LLG Service Improvement Programs requires an extra 5,000 bank reconciliations and 2,000 financial statements to be prepared by sub-national PFM systems each year. Further, new governance initiatives such as Provincial Health Authorities and District Development Authorities also add to the on-going demand for

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<sup>1</sup> 2008 - Milne Bay, East New Britain, Eastern Highlands, Central, Morobe and Western; 2013 - Gulf, Western Highlands, Autonomous Region of Bougainville and West Sepik.

PFM capacity building in all 21 provinces, not only 10 pilot provinces.

**Relevance** – The Program Objectives are largely relevant to achieving the Program Goal “*to strengthen sub-national financial management capacity in a sustainable manner*”. To improve relevance in future, some Objectives need to be reworded; and one recently added Objective involving PEFA assessments needs to be delinked and relocated within DOF.

Program Activities have not been updated for changes in DOF corporate responsibilities; and need to be revisited to be relevant in future. Activities that are discontinued (25%), or not implemented (25%), can be removed. Remaining Activities (50%) could be consolidated under the single DOF Corporate Plan objective of “*Building Transparency and accountability in public financial management in sub-national government entities and Provincial and district Treasuries Program*”.

Existing Program Activities focus too narrowly on DOF PFM requirements. Future activities need to be broader in scope, so that the next PFM capacity-building initiative has the mandate and flexibility to support all provincial PFM needs. These broader PFM responsibilities include activities that are traditionally aligned to DOT and DPLGA, being prioritisation, planning, budgets, revenue mobilisation and cash resources allocation (CFCs).

Under this approach, the PFM needs of DOF, DOT and DPLGA can be incorporated into a single sub-national PFM capacity building initiative; and so realise economies and efficiencies that were not achieved separately by the Program and PLGP during the pilot Program.

Finally, stakeholder expectations have altered over the 7-year pilot Program. DOF seeks to widen the scope and expand sub-national PFM capacity building to all 21 Provinces. UNDP faces funding constraints that suggest a ‘business as usual’ approach. DFAT has policy guidance that signals a narrowing of its focus and resources onto 6 reform-minded provinces.

These short-comings to the existing Program Objectives and Activities and changing stakeholder expectations signal the need for a complete redesign to properly shape the next sub-national PFM capacity building initiative.

**Effectiveness** - The Program has been effective at recruiting and retaining PFM-experienced Program Advisors on consulting salaries; and successfully accommodating them at the provincial level under the terms of the MOU between DOF and the Provincial Administrations. Further, these officers have been supported by individual mini-budgets that enable them to rapidly respond to emerging capacity-building needs in their province.

This methodology for sub-nation PFM capacity building has laid the foundation for the working-level PFM outputs that the Program has achieved. DOF and Provincial PFM managers consider

that the Program is more effective than previous DOF and DP funded PFM initiatives at the sub-national level.

The Program has not been as effective in achieving strategic PFM outcomes. This can be attributed to both managerial efforts and Advisor skill sets being targeted at the working level outputs of the Program. Future sub-national PFM capacity building initiatives will need to maintain a dual focus on working-level outputs and strategic outcomes. This will be as a function of the design, managerial oversight methods and monitoring of external KPIs.

The next phase of sub-national PFM capacity building will need to encompass a more holistic approach to reforms if it is to be effective across the whole spectrum of PFM needs in the provinces; and focus on both working level and strategic outputs. Further, any Advisors will need to be formally recognised as having DOF authority to consult and advise on capacity building requirements across these PFM needs; and not be limited to DOF-related activities.

**Impact** - The Program has a comprehensive Performance Management System that captures all working-level outputs that are being achieved. This system is maintained up to date by Program Advisors; and provides the basis for Annual Assessment Reports. The Review finds this to be an accurate record of Program outputs.

However, the Program has not linked monitoring of its activities to outcomes-based, third party collated KPIs; so there is no independent assessment of Program impacts. This is a weakness in the Program's strategy for evidencing impact; and makes it difficult for the Program to externally validate its achievements.

Any future sub-national PFM capacity building initiative needs to be linked to relevant third party KPIs. Apart from forging clearer links with stakeholders and beneficiaries who provide the KPI data sets; the use of third-party KPIs will independently validate activity impacts and lend greater credibility to reporting of program achievements.

A lack of Program impact in Gulf Province offers valuable lessons learnt regarding the links between well-defined Provincial entry and exit criteria and the impact sub-national capacity building can have. Any Province that does not satisfy agreed minimum entry criteria should not be engaged by sub-national PFM capacity building, as the impact will be blunted. Exit criteria will need to be evidence-based and linked to achievement of strategic PFM outcomes. Exit criteria need to be performance-based, not time-based, making Activity funding more difficult for DP programs of support.

The Gulf experience also offers a cautionary lesson about over-extending capacity-building initiatives into a trouble-shooting consultancy. PFM capacity building has practical limitations that need to be recognised in the design; and respected in implementation.

However, PFM capacity building work may disclose major PFM issues that demand a high-level DOF policy response. Future sub-national PFM capacity building initiatives need to have a clear protocol for referring major PFM issues directly to Secretary Finance for an appropriate policy response. The Gulf outcome evidences the need for a referral protocol.

**Efficiency** – Governance by the Program Steering Committee has been effective in keeping stakeholders engaged in management of Program activities. However, Annual Work Plan and Annual Assessment Report formats provided to the Steering Committee are not structured so as to highlight the divergence between the Objective and Activities designed and those actually being implemented with Program resources. Effective committee governance is dependent on effective reporting structures linked to the design.

Financial management arrangements for the Program are suitable for a pilot initiative with 82% of total resources in the form of DP contributions, but may not serve the needs of a countrywide sub-national PFM capacity building initiative that is majority funded by GOPNG. Annex 5 sets out the complex nature and transaction costs imposed on GOPNG by current Program financial management arrangements. The Review considers that UNDP's objective of lowering Program transaction costs by 20% has not been achieved.

The Program has efficient supervision and advisory management inputs from the senior management team. It is to be commended for establishing and sustaining a strong, merit-based appointments process; and for strongly defending this against attempts at external interference in Program appointments. This needs to be continued in the next sub-national PFM capacity building initiative to optimise the benefits from each consultant appointed.

**Sustainability** - The Program's approach to sub-national PFM capacity building is technically, but not financially, sustainable.

All Program Managers, Trainers and Advisors are Papua New Guineans with the required skill-sets. These skill sets can continue to be deployed in PNG, as long as a suitable vehicle is available to support this work.

The existing Program vehicle is a UNDP-administered program, which is 82% DP-funded and 18% GOPNG-funded. Because DP programs have a finite budgets and life spans, it is unlikely that the existing Program vehicle will be supported much beyond the seven years that it has already operated. Further, it appears unlikely that the Program can be scaled-up using additional DP resources.

There also appear to be diverging policy goals amongst the existing Program stakeholders. DOF wants to scale-up and extend long-term sub-national PFM support into all 21 provinces; and is willing to resource this expansion. UNDP indicates that it faces resources constraints that will

not permit it to increase future funding to the Program. DFAT has signalled that its policy will be to focus on six, or fewer, clearly reform-minded provinces; and focus its investment for better development outcomes.

Against this backdrop, the Review considers that a 'business as usual' approach is not a sustainable option for future sub-national PFM capacity development.

### Conclusions and recommendations

Taking note of the issues facing the pilot Program in 10 provinces and the growing GOPNG willingness to fund holistic, countrywide sub-national PFM capacity building; the Review concludes that a new sub-national PFM capacity building initiative needs to be designed.

**The Review recommends** that DOF lead a design process for the next phase of sub-national PFM capacity building in PNG. The design will need to begin in early 2015, to enable launch of a new initiative in January 2016. This timing coincides with the 2015 GOPNG Budget cycle.

The DOF-led design process will need to consider:

- the case and criteria for scaling the pilot Program up to a whole-of-PNG approach;
- restated Program Objectives and Activities to sharpen the focus on services delivery;
- introduction of third-party dependent KPIs to externally monitor Program impact;
- the most effective communication strategy for keeping all stakeholders informed;
- the most realistic time period for the next phase e.g. 5-years, 10-years ,etc;
- likely annual cost of a whole-of-PNG Program and the GOPNG funding commitment;
- the implementation modality best able to retain Program operational advantages;
- the implementation modality best able to incorporate any DP contributions; and
- the viability of all financial reporting, GOPNG and DP, to come directly from IFMS.

The new design needs to take place in parallel with on-going implementation of the Program in 2015. This will ensure on-going PFM capacity building in the 10 pilot provinces, most notably in the four new provinces engaged in 2013.

The following is a summary of the Review's detailed recommendations for design of a new sub-national PFM capacity building initiative.

**The Review recommends** that this new initiative:

1. Incorporate a representative Steering Committee to govern activities; and ensure that Steering Committee reporting is structured to support effective and timely decision-making on the Activities to be funded;
2. Changes existing Program Objective 1 by removing legacy ICT activities; Objective 3 be restated to better link to its purpose; and Objective 6 be removed. Further, five existing

Program Activities need to be discontinued; and some need to be redesigned to link to issue-specific outcomes; with progress monitoring based on relevant and empirical KPIs. Wherever possible, these KPIs need to be third-party sourced to enhance their external reliability;

3. Broaden its support to encompass all sub-national PFM functions, including those considered as “Treasury” or “DPLGA”-owned. This will require extensive consultation with DOT and DPLGA during design of the next phase to identify the relevant new Activities; and to establish an appropriately wide “all-PFM” mandate for the Advisors;
4. Build on and improve Program efficiency by retaining the methodologies that achieved working-level PFM outputs, but extend them to achieving strategic PFM outcomes. Define criteria for effectively engaging new provinces and exiting from established provinces. Ensure managerial oversight focuses on both working-level outputs and strategic PFM outcomes.

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## Methodology

The Review adopted a structured methodology for the evaluation and validation process, involving qualitative and quantitative approaches. The steps taken are set out below.

### Step 1: Desk Review

The Review commenced with a review of all relevant documentation, from which a standard survey instrument was derived to ensure consistency of enquiry during in-country consultations.

#### *Document study*

The Review requested that complete set of key formulation and monitoring documents be provided ahead of the in-country site visits. These were provided in electronic format and informed the Review of key issues and past decisions, ensuring that in-country time could be maximised for an evaluation of contemporary and emerging matters. See Annex 7 for details of documentation consulted by the Review.

#### *Standard survey instruments developed*

Standard survey instruments were prepared to guide consultations with Provincial Administrators, Provincial Treasurers and District Treasurers. The survey was structured to elicit responses on PCaB II relevance, effectiveness, impact efficiency and sustainability. See Annex 6 for templates of the standard survey instruments completed by the Review.

#### *Data requested*

Two data sets were requested to enable quantitative analyses of the Program's effectiveness and impact, being 5-year time-series data of:

- Submission of Provincial Financial Statements, 2009-2013 (Auditor Generals Office); which was provided in June 2014; and
- Cash Transfers to Provinces, 2009 – 2013 (DOF, Cash Management Branch); which is not complete for three years at the date of this report. See "Constraints" below.

### Step 2: In-PNG site visits

Two in-PNG site visits were conducted from 17 May – 11 June 2014; and 1 – 13 July 2014.

See Annex 8 for a complete list of Persons Met during consultations conducted in Port Moresby (including Gulf Province), Western Highlands, Milne Bay, Madang and East New Britain Provinces.

### Step 3: Test major conclusions and recommendations with stakeholders in-PNG

The Review's preliminary conclusions were tested in briefings/ seminars to DOF and Program stakeholders. All major findings and recommendations were endorsed in principle.

#### *Secretary for Finance*

Secretary for Finance, Dr Ken Ngangan, was briefed on the Review's main findings on the

morning of 9 July 2014. Program advisors and Mr. Peter McCray, SGP Advisor, also attended.

#### **Peer group presentation and seminar**

On 11 July 2014, the Review gave a seminar that included a presentation of its main finding and recommendations, followed by discussion and queries from stakeholders in attendance. This seminar tested the major Review conclusions and recommendations, which were endorsed in principle. See Annex 9 for the PowerPoint presentation given on 11 July 2014.

#### **Constraints**

The Review wishes to formally note that DOF Cash Management Branch cannot locate or provide complete Cash Disbursements data for all provinces, 2008 – 2013, which is a significant constraint on the evaluation and validation process. DOF continue to search for this data; and are willing to provide this to the Review when it becomes available.

One of the main activities of PCaB II is supporting accurate and timely bank reconciliations in pilot Provinces and Districts. Bank reconciliations are a key first step to producing timely Financial Statements for Provincial, PSIP/ DSIP/ LGSIP grant acquittals; which can result in timely grant disbursements in the following year. The requested data would enable the Review to test for any links between timely acquittals and disbursements; and so provide quantitative evidence of Program outcomes.

In the absence of the requested data set, the Review was not able to apply quantitative evaluation methods to testing or validating some Program outcomes.

#### **Disclaimer**

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#### **Acknowledgements**

This evaluation was only possible due to the willing cooperation of many National, Sub-National organisations and individuals consulted by the Review, my sincere thanks to you all.

My gratitude also goes to the PCaB II National Coordinator, Mr Sam Erapan, for his extensive logistical support during the two in-country missions; and for his outstanding liaison capacity within Departments of Finance and Treasury.

## Main Findings and Conclusions

### Context

Government of Papua New Guinea (GOPNG) has more than 25 years experience of sustained development partner assistance for Public Financial Management (PFM) capacity building at the sub-national level.

This experience commenced in 1986, the with the United Nations Development Program (UNDP) funded Financial Management Development Project (1986 – 1995) that operated in GOPNG-wide and supported a dedicated counterpart agency, being the Financial Management Development Branch, Department of Finance (DOF). These joint resources enabled the design, rollout and implementation of the first automated PNG Government Accounting System (PGAS); and related training, such as computerised bank reconciliations.

In 1996, following PFM decentralisation under a revised Organic Law, DOF designed a whole-of-government Financial Management Improvement Program (FMIP), which incorporated a (i) Finance Training Branch (FTB); (ii) a major GOPNG Information Communications and Technology (ICT) project; and (iii) a Provincial capacity-building component. Since 2000, there have been six Development Partner (DP) initiatives in support of the FMIP Provincial capacity building component, see details in table below:

**Table 1 - Sub-national PFM capacity building initiatives 2000 - 2014**

Provincial Capacity Building Initiative	Development Partner	Start date	End date
Provincial Financial Management Training Program (PFMTP)	Department of Foreign Affairs and Trade, Australian Aid Program (DFAT)	2000	2006
Support for Provincial Financial Management Training (SPFMT)	UNDP, United Nations Volunteers and DFAT	2000	2003
Support to Financial Training Branch	DFAT Advisory Support Facility	2004	2006
Provincial Capacity Building Project, Phase I (PCaB I)	UNDP	2004	2006
Provincial Capacity Building Project, Phase II (PCaB II)	DFAT cost-sharing with UNDP	2008	2012
Provincial Capacity Building Project, Phase II Transition (PCaB II T)	GOPNG and DFAT cost-sharing with UNDP	2013	2014

### Background

PCaB Phase II (“the Program”) is a cost-sharing partnership between GOPNG, Australian Department of Foreign Affairs and Trade (DFAT) and UNDP, nationally executed by DOF. Building on Phase I, the Program was a five-year initiative in 6 pilot provinces<sup>2</sup> (2008 - 2012).

In 2010, the Program Steering Committee endorsed a Mid-Term Review (MTR) recommendation

<sup>2</sup> 2008 - Milne Bay, East New Britain, Eastern Highlands, Central, Morobe and Western; 2013 - Gulf, Western Highlands, Autonomous Region of Bougainville and West Sepik.

to extend Phase II for a further two years, 2013 -2014;and to work infour more provinces. Thisdecision deferred any Program redesign to after the 2012 General Election; and gave time to transition to a whole-of-PNG strategy for better sub-national PFM.

In July 2013, during the Phase II Transition period of 2013-2014, a new UNDP Programme Formulation Document was prepared entitled “PCaB Programme Extension for 2014 - 2018” (PCaB E). The Review understands this UNDP program proposal has been submitted to the Steering Committee for consideration. The Review has appraised this document as one possible option for strengthening sub-national PFM in all provinces.

The Independent Review (“Review”) is intended to inform thenext whole-of-PNG strategy for sub-national PFM capacity building, including consideration of any extensions to PCaB II. This report is a synthesis of the Review’s findings andconclusions reached; and makes recommendations for stakeholders to consider.The Review has Terms of Reference (TOR) that provide for evaluation of progress and impacts to date; and to assess how achievements and lessons learnt can be incorporated into any proposed future design guidelines. See Annex 1 for the complete Terms of Reference for the Independent Reviewer.

#### **The challenge offrequent changes to sub-national PFM**

GOPNG has frequently changed the nature of sub-national fiscal transfers and their implementation modalities to improve service delivery inProvincial and District communities. Recentchanges that impact on sub-national PFM include:

- piloting the Provincial Heath Authorities Act 2007 in Eastern Highlands, Milne Bay and Western Highlands with its autonomous governance and PFM arrangements. There is now demand for health sector-wide PFM at the sub-national level, capable of consolidating multiple health-related revenue flows into a single sub-national Health budget and reporting structure. This PFM structure is yet to be formally developed;
- increasingBudget Appropriations to Provincial (21), District (89) and Local-Level-Government (LLG) (313) Service Improvement Programs; and disbursing fundsdirectly into 413 separate bank accounts held byProvincial and District Treasury Offices. As a result, an extra 5,000 bank reconciliations and 2,000 quarterly and annual financial statements need to be preparedeach year by existing sub-national PFM systems, without any related increase in the capacity of these systems;and
- proposingthe establishment of District Development Authorities (DDA) to manage all District-level services delivery. This would require District-wide PFM, capable of consolidating all District revenue and expenditure under one budget and reporting system. This PFM mechanism does not exist; and its implementation may conflict with existing PFM needs and systems, e.g. Provincial Health Authority legislation.

This Review recognises that sub-national PFM will need to have (i) flexible and adaptable systems to meet the challenges posed by frequent changes to revenue and reporting requirements; and (ii) will require long-term support to effectively address a changing framework for sub-national development policies and associated revenue flows, in the form of effective change management and capacity development skills.

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## Relevance

The Review consulted with key officers in National Departments and senior staff responsible for PFM in four<sup>3</sup> selected Program provinces to evaluate the current and likely future relevance of Program initiatives. Staff interviewed included counterparts in Port Moresby and Provincial Administrators, Provincial Finance Directors and staff in Provincial Treasury Offices (DTO) and District Treasury Offices (DTO).

The purpose of this enquiry was to determine whether the Program was adding value to Provincial financial management; and to identify any duplication/overlap arising from having two DOF teams in the province, being PTO/ DTO officers and the on-site Program Advisors.

Enquiries were also made of the relationship between the Department of Provincial and Local Government Affairs (DPLGA) initiative, being the Provincial and Local Government Program (PLGP) Advisors (funded by Australia until late 2013) and Program Advisors.

The purpose of this enquiry was to identify any cooperation that bridged gaps between the “Treasury” functions managed by the Provincial Administration; and the “Finance” functions managed by PTO/ DTO.

The terms “Treasury” and “Finance” are used here to mirror the roles of DOT and DOF in national PFM; and so highlight the organisational demarcation lines that separate what need to be two closely related PFM functions at the sub-national level. In particular, the Review notes the need for both these functions to cooperate closely to secure timely DOT Warrant Authorities and DOF Cash Disbursements; and so better fund sub-national services delivery. See table below for sub-national PFM functional analysis:

**Table 2–Analysis of sub-national 'Treasury' and 'Finance' functions**

<b>Sub-national “Treasury” functions</b>	<b>Sub-national “Finance” functions</b>
<u>Responsibility of:</u> Provincial Administration, Provincial Finance Director	<u>Responsibility of:</u> Provincial Treasury Office, Provincial and District Treasurers.
<u>Main activities are:</u> <ul style="list-style-type: none"> <li>• Budgeting preparation and submission;</li> <li>• Revenue mobilisation (<i>incl. Cash Disbursement</i>);</li> <li>• Resource allocation, Cash Funds Certificates (CFCs)</li> </ul>	<u>Main activities are:</u> <ul style="list-style-type: none"> <li>• Revenue receipting (<i>incl. Cash Disbursements</i>);</li> <li>• PGASand Trust Fund accounting</li> <li>• Bank reconciliations;</li> <li>• Financial reporting; and</li> <li>• Audit support and response.</li> </ul>
<u>Supported by:</u> DPLGA and PLGP	<u>Supported by:</u> DOF and PCaB II

All provinces agreed that managing Cash Disbursements was problematic, which undermines

<sup>3</sup> Western Highlands, Gulf, Milne Bay, East New Britain were consulted as PCaB pilot provinces; and was consulted as a non-PCaB province.

effective service delivery. In three provinces reviewed, the PTO/ DTO did not consider Cash Disbursements a Finance function. However, Provincial Administration clearly did regard it as a Finance function and were frustrated by the lack of PTO/ DTO engagement in this area.

Management of Cash Disbursements was discussed with the Program, which does not have this as an Objective/ Activity nor as a Key Performance Indicator. The Review concluded that most Program Advisors and sub-national Finance officers consider Cash Disbursements to be a DOT function; and so must be either a DOT or Provincial Administration responsibility.

Further, neither DPLGA nor PLGP had taken up the issue of more timely management of Cash Disbursements in their work, but could have done<sup>4</sup>. Their agenda focussed more on corporate plans, 5-year development planning and annual budget formulation.

Because the Program is seen to be “DOF-owned”, it has focussed in “Finance-specific” technical activities, such as bank reconciliation and preparation of financial statements. There has been no consideration given to linking up with “DOT-owned” or issues-based sub-national PFM activities, such as improving Budget submissions or management of Warrant Authorities and Cash Disbursements to support improved services delivery.

This narrower interpretation of sub-national PFM capacity building needs, based on artificial distinctions between “Treasury” and “Finance”-specific roles, needs to be abandoned in the next phase of sub-national PFM support; with all key PFM issues receiving support and so improving services delivery. This will require greater consultation with DOT, DPLGA and Provincial Administrations during design of the next phase of sub-national PFM capacity building.

**The Review recommends** that any future sub-national PFM initiative include support to all sub-national PFM functions, including those considered as “Treasury” or “DPLGA”-owned. This will require extensive consultation with DOT and DPLGA during design of the next phase of sub-national PFM capacity building to ensure Program Advisors have a clear mandate and the authority to operate across all aspects of sub-national PFM without facing demarcation barriers. Examples of future activities in this area include:

- Provincial oversight of Warrant Authorities and Cash Disbursements, because of the positive impact on services delivery; with monitoring of the timing of Cash Disbursements as a Key Performance Indicator (KPI);
- Validating the technical accuracy of the Province Budget Chart-of-Accounts (COA) in the Provincial Budget Submissions to assist Treasury, Budgets Division with timely approval of

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<sup>4</sup>Page 7, Principle 4, The Provincial Performance Improvement Initiative - “(ii) Strengthen public administration processes of the provinces, districts, and local-level governments... with particular focus on planning, budgeting, tendering, implementation, and financial management processes in each province, district, and LLG”. Asian Development Bank, 2008.

- the Province's Budget, with time taken to approve these Budget Submissions as a KPI;
- Assisting the Provincial Administration to monitor and recover undisbursed Cash from prior years in the current year as Revenue support. Total Cash Disbursed and received across fiscal years as a percentage of Total Warrant Authorities issued is the KPI.

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### Relevance of Program objectives

The Review considered the goal of the Program and analysed the current PCaB II Objectives and Activities alongside the responses received during consultations and appraised the relevance of each. Any emerging sub-national PFM capacity building activities that need to be considered by the design of the next phase are also identified. The Review also considered how relevant each is to supporting the Goal.

The Goal of the Program is “*to strengthen sub-national financial management capacity in a sustainable manner*” to improve services delivery and support broad-based economic growth.

Program Objective & Activity	Relevance	Emerging sub-national PFM needs
<p><b>1. Effective decentralisation of financial management through the:</b></p> <p>a. Roll-out of the GOPNG Integrated Financial Management System (IFMS) at national and sub-national levels; and</p> <p>b. Roll-out and capacity building of District Treasury Offices.</p>	<p>a. FMIP IFMS Helpdesk is managing the rollout of IFMS as thereplacement for PGAS at both national and sub-national levels. Will possibly reach Provinces from 2016 onwards. Not relevant to next phase of sub-national PFM capacity building. <b>The Review recommends discontinuing;</b></p> <p>b. FMIP District Treasury Roll Out Program (DTROP) is managing DTO offices, housing, power-supply, motor vehicles and PGAS hardware and software installation. Not relevant to next phase of sub-national PFM capacity building. <b>The Review recommends discontinuing,</b>and</p> <p>c. Capacity Building of DTOs is being done using a two-pronged approach. Capacity in use of DTO recurrent funding is built by bank reconciliation and financial statements training. DSIP funds management capacity is built by installation and training in the use of MYOB/ QuickBooks software and bank reconciliation procedures where PGAS is not already installed.Relevant to next phase of sub-national PFM capacity building.<b>The Review recommends discontinuing.</b></p>	<p>Retain Objective and Activity</p> <p>C. However, future Activity needs to reflect the shift towards greater funding of Districts, Local-Level Governments (LLGs) and Wards in some Provinces; and the emerging budget, cash disbursement, accounting, reporting and audit needs that this will bring about.Strategy to transition from MYOB/ QuickBooks needs to be considered alongside PGAS and rollout of IFMS.</p>
<p><b>2. Enhanced accountability and transparency through:</b></p> <p>a. Better quality and more</p>	<p>a. This activity remains relevant, but needs to be linked to more issue-related KPIs in future, such as:</p> <ul style="list-style-type: none"> <li>timely submission of financial statements to the Auditor General's</li> </ul>	<p>Retain Objective and Activities but develop issues-specific KPIs. Tailored ICT training in</p>

Program Objective & Activity	Relevance	Emerging sub-national PFM needs
<p>timely financial reporting at sub-national level for both management accounting and statutory reporting purposes; and</p> <p>b. use of ICTs for more effective (<i>Provincial</i>) Treasury management .</p>	<p>Office (AGO) also, to improve public visibility of resource use; and</p> <ul style="list-style-type: none"> <li>documented links between Appropriations, Warrant Authorities, Cash Disbursements, CFCs and Actual Expenditure in the form of an enhanced Provincial Budget &amp; Expenditure Report. <b>The Review recommends discontinuing;</b></li> </ul> <p>Relevant to next phase of sub-national PFM capacity building.</p> <p>b. This activity remains relevant. Needs to be linked to establishment of Provincial computer rooms, greater use of mobile communications and data services and extending ICT training to all officers in the Province that need this capacity. Relevant to next phase of sub-national PFM capacity building. <b>The Review recommends discontinuing.</b></p>	<p>Microsoft Excel is a clearly identified need for future sub-national PFM capacity building. Specialised reporting, using data extracted from PGAS and MYOB/QuickBooks, will be required. The Program needs to support greater use of file and information transfers using mobile communications and data networks.</p>
<p>3. <b>Improved financial management capacity</b> through:</p> <p>a. Capacity building of Provinces and Local-Level Governments to better implement the Public Finances (Management) Act (“the Act”);</p> <p>b. Improved strategic planning and coordination, both within PTOs and Provincial Administrations; and</p> <p>c. Research on and better dissemination of training in examples of improved sub-</p>	<p>a. This a general statement of activities that are better specified in other Program Objectives. Not relevant to next phase of sub-national PFM capacity building. <b>The Review recommends discontinuing;</b></p> <p>b. This activity is relevant, but needs to be clearly defined by structured processes and clear authority that enables Program Advisors to work across both “Treasury” and “Finance” activities at the sub-national level. Examples would be establishment of a formal Provincial PFM Working Group that brings Provincial Administration, PTO/ DTO and Program Advisors together to address issues impacting services delivery, ranging from Budget Submissions to Audit responses. Minutes of these meetings and actions taken could be a KPI. Relevant to next phase of sub-national PFM capacity building. <b>The Review recommends discontinuing;</b></p> <p>c. This is a Program management function around lessons learnt, not an Activity. There are several examples of how lessons learnt have shaped the nature of the Program. One example is how use of United</p>	<p>Objective needs to be restated as “Improved strategic planning and coordination of sub-national PFM” and supported by Activity that targets this issue specifically, such as establishment of a formal Provincial PFM Working Group with minuted outcomes.</p>

Program Objective & Activity	Relevance	Emerging sub-national PFM needs
<p>national financial management.</p>	<p>Nations Volunteers and internships were discontinued when they were found not to be effective. Not relevant to next phase of sub-national PFM capacity building. <b>The Review recommends discontinuing.</b></p>	
<p><b>4. Transparency and accountability of public funds (new in 2013-2014) through:</b></p> <ul style="list-style-type: none"> <li>a. Publishing of key financial information in the Provincial Administration and District Treasury Offices (DTO) on the PCaB administered website; and</li> <li>b. Tailored training in public financial management responsibilities to Senior Officers in Provincial Administrations and DTOs, to be delivered by outsourced provider(s).</li> </ul>	<ul style="list-style-type: none"> <li>a. Relevant to next phase of sub-national PFM capacity building. <b>The Review recommends continuing;</b></li> <li>b. Design of tailored materials and Trainers and Participants handbooks needs to be undertaken by the Program Advisors, by compiling a synthesis of all sub-national training materials already prepared to date. Once the materials are available, the pedagogy and process, including timetable and costs of delivery can be tendered for by outsourced training providers. Relevant to next phase of sub-national PFM capacity building. <b>The Review recommends continuing.</b></li> </ul>	<p>Retain Objective and Activities in design of next phase of sub-national PFM capacity building.</p>
<p><b>5. Minimising the risk of Corruption (new in 2013-2014) through:</b></p> <ul style="list-style-type: none"> <li>a. Support convening, operation and functioning of Provincial Audit Committees (PAC).</li> </ul>	<ul style="list-style-type: none"> <li>a. This activity needs to include links between internal audit programs and addressing specific sub-national PFM issues identified by AGO during external audit. One example of linkages needed is to clear outstanding external audit queries, so that the Audit Opinion improves from “Disclaimer” [meaning that AGO found insufficient supporting documentation to audit or even form an opinion] to “Qualified” or “True and Fair”; improvement in the quality of audit opinions would be the KPI. Relevant to next phase of sub-national PFM capacity building. <b>The Review recommends continuing.</b></li> </ul>	<p>Retain Objective and expand activities to include qualitative focus. Program has focussed on completeness and timeliness of sub-national PFM processes, but externally appraised qualitative objectives need to be included in future.</p>

Program Objective & Activity	Relevance	Emerging sub-national PFM needs
<p><b>6. Establishment of PEFA standards (new in 2013-2014)</b> by:</p> <ul style="list-style-type: none"> <li>a. Support DOF Accounting Framework and Standards Division to function as Secretariat to the PEFA National Management Committees and Technical Working Group. Gradually introduce PEFA measurement and monitoring approaches in provinces from 2016 onwards.</li> </ul>	<p>a. It is not clear to the Review that this activity is directly or immediately relevant to sub-national PFM capacity building. The Review was advised that the PEFA Technical Working Group &amp; Assessment Team first met in March 2014. Sub-national PEFA assessment was endorsed to begin in 2016, but the modality for this work is not determined. Because of the deferred timing indicated, it appears unlikely that PEFA assessments will assist in identifying provinces with the greatest need for sub-national PFM capacity building until 2017.</p> <p>The Review recommends that this activity be de-linked from the Program; and if it is to be continued, it be resourced by and relocated within DOF Accounting Framework and Standards Division. Not relevant to next phase of sub-national PFM capacity building. <b>The Review recommends discontinuing.</b></p>	<p>None in this area.</p>

**Conclusion on existing Objectives and Activities**

The Review considers that all but one of the Program Objectives are relevant; and need to be retained into the next Phase of sub-national PFM capacity building. The inclusion of legacy ICT and new national-level activities have diluted the Program’s focus on sub-national PFM capacity building.

**The Review recommends** that Objective 1 remove all legacy ICT activities; Objective 3 be restated to better link to its purpose; and Objective 6 needs to be removed. Objective 6 could potentially be relocated within DOF Accounting Framework and Standards Division. Further, five Activities need to be discontinued; and some need to be redesigned to link to issue-specific outcomes; with progress monitoring based on relevant and empirical KPIs. Wherever possible, these KPIs need to be third-party sourced to enhance their external reliability.

The Review concludes that Program Objectives and Activities have mostly supported the Goal. The above recommendations will sharpen the Program’s focus on sub-national PFM and more reliable funding for services delivery into the future; and so better support the Goal.

### Capacity building in sub-national PFM is a continuing need

The Provincial Administrations and PTO/ DTO confirmed that the Program adds value to sub-national PFM in their provinces; and stated they would like the Program to actively support their provinces for many years to come. These offices also highlighted areas of future sub-national PFM capacity building need, they are:

- more support for sub-national PFM capacity building in Districts and LLGs, especially as sub-national initiatives such as Provincial Health Authorities and DDAs continue to be implemented; and
- build functional links across the Budget, Revenue, Accounting, Reporting and Audit management functions in the province so as to offer a less fragmented, more holistic overview of sub-national PFM into the future.

Provincial Administrations noted they were willing to continue to meet Program Advisor office, computer room and residential accommodation costs under the terms of the Memorandum of Understanding (MOU) signed with DOF.

The impact of PLGP activities in the pilot provinces was less obvious to the senior officers consulted. The Review considers that the PFM aspects of the DPLGA/ PLGP mandate could be incorporated into the Program's work plan; and so realise economies and efficiencies.

These responses validate the Program activities as both needed and valued by sub-national PFM systems managers; and signal the need for a long-term support capability to be established in sub-national PFM capacity building.

### Stakeholder expectations

#### *Department of Finance*

DOF have clearly stated their expectation to support the Program into the long-term; and plan to extend it to all provinces so as to support better sub-national PFM<sup>5</sup> across PNG. DOF expresses a high level of confidence in the ability of the program to achieve good sub-national PFM outcomes, which results in special assignments being given to the Program.

One special assignment was a "surge" activity to clear six-year arrears in the production of annual financial statements in Gulf Province. This assignment offers a cautionary lesson on the risks posed to DOF when using the Program as an all-purpose, or stand-by, consultancy arm. This case study also highlights the practical limitations to the scope and capacity of the Program. See Annex 5 for the Review's case study on lessons learnt in Gulf Province.

Given the scale and scope of sub-national PFM needs, the Review considers that DOF may seek to over-task the Program. DOF expectations of the Program may be too high to be practically realised; and need to be tempered by its technical and capacity constraints. The Review proposes to sharpen the design focus of the Program to recognise these limitations.

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<sup>5</sup> Review briefing to Dr. Ken Ngangan, Secretary for Finance, on 9 July 2014.

### *Provincial Administrations*

As noted above, Provincial Administrators find the Program meets their expectations. However, two Provincial Administrations gave specific examples<sup>6</sup> of why they were concerned about both the quality and independence of PTO/ DTO officers appointed by DOF; and the limited PFM capacity he felt they offered. Both have greater confidence in the quality and ability of Program Advisors; and have appointed them to various committees as the provincial PFM advisor. The Review notes that Program Advisors in other provinces are also held in high regard; and sit on a variety of committees to offer PFM advice.

These Provincial Administrations called for the merger of PTO/DTO roles into the Provincial Administration; with all PTO/DTO officers coming under the Province's direct administrative management, not DOF. The reason given for seeking this major administrative reform was that the stated benefits of separate DOF management of PTO/DTO, being independence and greater technical quality of staff, were not being realised in their Provinces. The Provincial Administration considered that it could locate and appoint better candidates than DOF.

The Review referred the question of the quality of PTO/ DTO candidates to the DOF, Provincial and District Financial Management Division (PDFMD), the body responsible for making PTO/DTO appointments on behalf of DOF. PDFMD noted that there are few candidates for PTO/ DTO positions; and appoint who is available, rather than appoint who they would prefer. PDFMD notes that candidates with known capacity gaps have been appointed; and senior officers have nominated PTO candidates directly to PDFMD.

The Review concludes that there is no overlap, or duplication, created by the presence of two DOF teams, being PTO/ DTO and Program Advisors, in a province. PTO/DTO capacity 'gaps' mean that these officers focus on daily transaction processing; and Program Advisors focus on provincial PFM needs analysis and capacity building, including for PTO/ DTO officers.

The Review sees risks to the Program from the Provincial Administrators expectations, being:

- Provincial Administrations may over-task Program Advisors because they are regarded as the more competent source of PFM advice and so end up in 'competition' with the PTO/DTO, while being diverted from Program activities; and
- Program Administrators will seek to have full-time Program Advisors appointed to their province for as long as possible, to reinforce PTO/ DTO. This is not consistent with a Program approach, nor is it sustainable under a DP funding model.

### *Provincial and District Treasury Offices*

The Review found that PTO/ DTO officers supported by the Program were appreciative of the capacity building being provided. They noted the particular advantage offered by the Program is that its activities are tailored, on a province-by-province basis, to realise specific

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<sup>6</sup> WHP has had four Provincial Treasurers in two years. The most recent departure was because the PTO signed a K7m cheque with only K3m in the bank account, allegedly in response to political pressure. This action undermined confidence in both the technical ability and independence of the PTO as a senior DOF officer.

work-place outputs that PTO/ DTO performance is judged on. These include timely and accurate bank reconciliations, preparation of Revenue & Expenditure Reports and Annual Financial Statements.

DTO officers responsible for DSIP accounting and reporting were particularly appreciative of the use of MYOB/ QuickBooks to prepare bank reconciliations and subsidiary reporting for DSIP grants. National Members of Parliament are responsible for these funds; and DTO officers are given short deadlines to process transactions and provide acquittal reports.

#### ***Madang, a non-Program Province***

The Review also consulted in Madang, as a non-Program province. The PTO noted that it has reservations about the Program's technical capacities; and would not embrace the Program in Madang due to concerns about overlaps and lack of coordination between multiple advisors from the Program, PPII, PLGP, the DFAT-funded Economic and Public Sector Program and DOF, Finance Training Branch.

PTO Madang was also critical of PDFMD not making PTO/ DTO appointments on merit; and their decision to award District Treasury Rollout Program contracts to Port Moresby based contractors with little effective capacity in Madang Province.

#### ***District cash balances signal need for DPLGA/ PLGP programming assistance***

Notwithstanding the growing capacity of DTO to process DSIP transactions promptly, the Review was advised that the average bank balance of a District Treasury Operating Account was around K7m; which can be extrapolated to around K600m across all 89 Districts. This is a significant value of underutilised resources; and represents a major opportunity cost to development in the form of services not being delivered, but funded in advance by GOPNG.

Further, interest earned on these unused funds could be as much as K9m p.a. (at 1.5% interest paid on deposits >K10,000), but is being "swept" into the Waigani Public Account on a daily basis. As District grants are unconditional, interest earned could be retained and used for program activities.

The Review considers that performance accountability for effective programming and utilisation of District funding, including interest earned, is a key services delivery area that DPLGA/ PLGP can assist into the future. This could compliment the Program's work in strengthening fiscal accountability through sub-national PFM capacity building. This observation is particularly relevant to the DDA approach being developed by GOPNG.

#### ***Department of Provincial and Local Government Affairs (DPLGA)***

The Review notes that full-time PLGP Advisors and Program Advisors were simultaneously in Central, Eastern Highlands, East New Britain and Milne Bay Provinces for some years. DPLGA indicated that there was limited coordination between these Advisors until the 2013 joint planning sessions, but stated that this new development was too late in the PLGP program life to have any impact.

DPLGA views the Program's focus as too narrow, offering its support only to technical Finance officers and not to general finance staff in the sectors (e.g. Health, Education, Infrastructure and Transport Sectors). As a result, DPLGA considers that the Program has limited likelihood of success in its current form; and noted that DPLGA expectations of the Program were not fully realised.

The Review notes that the Program's 2013 Annual Assessment Reports documents that sectoral finance staff do now receive Program assistance; and DPLGA's position may reflect a lack of communication between Program and DPLGA on sectoral training activities.

#### *Development Partners*

The Program is a UNDP-hosted activity, nationally executed by DOF. Funding is from UNDP (USD1.4m, or 10%); with cost sharing by DFAT (USD9.6m, or 72%) and counterpart funding from DOF (USD2.4m, or 18%). The total Program budget to date, 2008-2014, is USD13.4m over 7 years; or an average annual cost of USD1.9m, or PGK4.7m.

UNDP notes that the purpose of the Program was to support the rollout of IFMS. However, the IFMS rollout to the provinces will be much later than anticipated; and so UNDP expectations were adjusted and the Program restructured to support other sub-national PFM needs that exist. The Program has met these adjusted expectations of UNDP.

Given the long-term support UNDP has provided to sub-national PFM capacity building, the focus is now on graduating the pilot provinces out of the Program; and transferring the available Program resources to new provinces. There is no commitment to provide additional resources in support of any future phase of the Program, but there is a clear commitment to continue with sub-national PFM capacity building<sup>7</sup>.

The Review concludes UNDP's expectations for the next phase of the Program are that it will:

- operate within the current Program resource window;
- exit from eight of the existing 10 pilot provinces and transfer existing Advisors and assets to new Program provinces; and
- leave Program Objectives, Activities the same on a "business as usual" approach.

DFAT notes that its expectations from the Program have been partly met, but its reservations about the robustness of results reported by the Program are raising concerns about the Program's focus and effectiveness.

DFAT notes that in late 2013 it removed support from PLGP over similar concerns; and now proposes that any future PPII-support initiative will focus on 6 provinces only.

The Review concludes that DFAT is committed to improved sub-national services delivery, but

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<sup>7</sup>Page 7, para 29 – "Public financial management capacities at all levels will be strengthened, to support effective service delivery and the anti-corruption initiatives outlined in the Government's key documents."  
Draft common country programme document for Papua New Guinea, 2012-2015, United Nations 12 July 2011.

is likely to focus its future resources on fewer (possibly only 6), more clearly reform-minded, Provinces<sup>8</sup>.

### Linkages with other initiatives

The PCaB Steering Committee, chaired by DOF, Deputy Secretary Operations, guides program implementation. The Steering Committee approves Annual Work plans and Budgets and any changes to Program Objectives and Activities as a result of monitoring reports. PCaB Steering Committee members include a UNDP representative, a DFAT representative, a representative of DPLGA and other Departments and Civil Society Organizations. Stakeholders consulted by the Review were satisfied with their linkages to the Program through Committee participation.

DPLGA noted that in 2013 there were a series of joint annual planning workshops between PLGP Advisors and Program Advisors that linked the work programs of the two organisations more closely together for the first time. However, this initiative ended when funding was withdrawn from PLGP in late 2013 and has had limited impact as a result.

The Program has engaged closely with internal DOF stakeholders, such as the Internal Audit Division, Finance Training Branch, Information and Communications Technology Division and the IFMS Project Team. It has also liaised effectively with external stakeholders such as DOT; the newly formed Independent Commission against Corruption; National Economic and Fiscal Commission (NEFC); and the Office of Rural Development, responsible for DSIP management in the Districts.

The Review concludes that the Program has made useful internal and external linkages with related initiatives. However, a closer relationship is needed between these linkages and the Programs Objectives, Activities and KPIs so as to better support the Program goal of improved sub-national services delivery.

### Good Practice

The Review notes that the Program has been regularly appraised and has implemented major recommendations by amending Activities that have lesser impact. A good example of this process in action is the removal of Activities that incorporated the use of United Nations Volunteers and Interns because of limited effectiveness.

The Review noted that regular external review and a willingness to implement review recommendations is a key characteristic of a learning organisation; and reflects good program management practice. The Program exhibits this good practice characteristic.

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<sup>8</sup>Page 1, PNG Aid Program Public Sector Governance Strategic Plan (2014-2015). DFAT, 13 February 2014.

## Conclusions

The Review concludes that the Program Objectives and Activities have been largely relevant to supporting the Program Goal during the seven-year pilot study. The pilot study offers “proof of concept” regarding the Program’s approach; and establishes the clear need for an on-going sub-national PFM capacity building initiative in PNG.

However, the Review notes that there have been changes in DOF ICT responsibilities; and emerging expectations about a whole-of-PNG approach that signal the need to design a holistic sub-national PFM capacity building initiative. Further, there have also been changes to DP policy and funding guidelines that can be better accommodated by a new initiative.

The Review proposes that any redesign commence in early 2015 and be conducted in parallel with the on-going pilot Program activities. The objective is to sustain on-going activities; and enable migration to a new initiative on 1 January 2016. This timing satisfies GOPNG budget formulation needs in mid-2015 to support a 2016 Budget appropriation; and would launch the new program at the start of a fiscal year.

However, the redesign needs to make the following changes to the pilot Program Objectives and Activities as a starting point:

- Remove the legacy ICT activities in Objective 1 as these are implemented by FMIP;
- restate Objective 3 to more closely reflect its constituent activities; and
- remove Objective 6. May link to DOF Accounting Framework and Standards Division.

The Review finds that DOF and Provincial PFM managers have greater expectations of the Program than the other stakeholders; and the Program Team and its outputs have largely satisfied their expectations. Other stakeholders, including UNDP and DFAT, appear to have more targeted expectations of the Program; which have not been fully satisfied by Program outputs.

Given this apparent mismatch in current expectations between DOF/ Provincial stakeholders and other Program stakeholders, the Review concludes that the redesign will need to take the following issues into consideration:

1. DOF and Provincial Administrations need to recognise the limitations on the Program’s capacity to act as general sub-national PFM consultants, this is more properly the role of PTO/ DTO with DOF support. To be most effective at the sub-national level, and to continue to attract DP funding, the Program needs to be designed for and able to focus its resources on sub-national PFM capacity building for sub-national services improvement;
2. the Program needs to demonstrate practical links to third-party stakeholders at both the sub-national and national levels, through data sets they can provide for Program KPIs. Examples of these third-party stakeholders include Provincial Administrators,

- Provincial Sectoral Program Managers, AGO and DOF-Cash Management Branch<sup>9</sup>;
3. DOF seeks to expand the Program into all 21 Provinces, but UNDP and DFAT have policies and resource constraints that will limit their support to less than 10 provinces into the future; and
  4. Where DOF can fund Program activity in 21 provinces through the Budget, the UNDP-hosted national execution modality may no longer be the most practical and efficient implementation modality for the Program.

**The Review recommends** that DOF lead the design process for the next phase of sub-national PFM capacity building in PNG. The design process will need to consider:

- the case and criteria for scaling the pilot Program up to a whole-of-PNG approach;
- restated Program Objectives and Activities to sharpen the focus on services delivery;
- introduction of third-party dependent KPIs to externally monitor Program impact;
- the most effective communication strategy for keeping all stakeholders informed;
- the most effective time period for the next phase e.g. 5-years;
- likely annual cost of a whole-of-PNG Program and the GOPNG funding commitment;
- the implementation modality best able to retain Program operational advantages;
- the implementation modality best able to incorporate any DP contributions; and
- DP Agreement clauses that commit to financial reporting directly from IFMS.

This recommendation is consistent with the PCaB Exit Strategy 2012, which calls for the extension of the UNDP program into a countrywide program. The Review proposes an alternative approach, being that DOF lead a redesign process; directly implement the initiative in-house; and become the primary funder for a countrywide program.

The Review recommendation recognises that DOF and DPs can have differing expectations of a sub-national PFM capacity building initiative; and respects the policy and funding constraints that individual DPs may face.

A new DOF-designed and managed initiative can offer greater programming flexibility; enabling DPs to be selective about the types of activity and values of funding they commit to, but with overall program costs underwritten by DOF to ensure stability and continuity of sub-national PFM capacity building activities.

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<sup>9</sup>The primary role of PCaB advisers is to improve the capacity of Department of Finance staff in the submission of financial reports. Timely and accurate submission of financial reports have positive consequences as it results in immediate release of public funds which allows for further service provision in the provinces, districts and LLGs. <http://www.pcabii.org>, Internet accessed 18 Sept 2014.

## Effectiveness

### Effectiveness of PCaB II in capacity building outputs

The Review discussed and directly reviewed the outputs of Program capacity building with working-level sub-national PFM officers in the provinces visited.

Sustained Program inputs to improve the quality and timeliness of bank reconciliations, monthly Revenue and Expenditure Statements and Annual Financial Statements have yielded tangible results over the seven-year pilot period. Further, the Program has had accounting policy impacts regarding the treatment of sub-national bank charges and interest earned.

The Review noted in Milne Bay and East New Britain, two of the original six pilot provinces, that timely bank reconciliations, financial statements and acquittals of DSIP grants are now performed as a matter of normal practice. PTO is formally publishing these outputs; and sub-national PFM officers supported by the Program clearly have the capacity and confidence to replicate this work into the future.

In Western Highlands, a new Program province in 2013, PTO/DTO noted their appreciation for support from Program Advisors to address the backlog of bank reconciliations and arrears of financial statements.

DOF Internal Audit officers noted that the Program was effective in supporting their work in the provinces; and they regard the Program as a highly effective “stand-by” facility of DOF.

The Review concludes that the Program has been effective in achieving positive outcomes for its working-level Objectives and Activities. This is particularly so for key sub-national PFM matters of preparing timely financial reports and their supporting bank reconciliations, an area that has been technically weak for over 30 years.

### Effectiveness of PCaB II in capacity building outcomes

The Review finds that the Program has had mixed effectiveness in achieving capacity-building outcomes. Given the scope and scale of working-level PFM needs at the sub-national level; the Program appears to have invested mainly in addressing these requirements, without considering the higher-level, strategic capacity-building outcomes.

An example of overlooking strategic capacity-building outcomes can be found around the related issues of monitoring the submission of Annual Financial Statements to DOF and AGO; and monitoring of Cash Disbursement trends in Program and non-Program provinces.

### Lodgement of Annual Financial Statements

There are several recent Program reports confirming the timelier lodgement to DOF of Annual Financial Statements by Program provinces<sup>10</sup> compared to non-Program provinces.

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<sup>10</sup>Page 5, PCaB Exit Strategy; and Page 6, PCaB 2012 Annual Assessment Report. Both by Department of Finance - FMIP, January 2012. Also Annexes 1 & 2, PCaB E 2013 Annual Assessment Report, Department of Finance -

The Review notes that the Section 114 (2), of the Organic Law on Provincial Governments and 10.2 of Finance Instruction 01/2013 provide for grant withholding from those provinces that do not submit financial statements to DOF in the correct format and on time. DOF has issued Financial Instructions requiring Provincial and LLG annual financial statements by 31 March of the following year; and Section 16 (3) of the Audit Act 1989 requires the AGO to submit audit annual financial statement for Provinces and LLGs by 30 April of the following year. It follows that annual financial statements for Provinces and LLGs will need to be submitted to both DOF and AGO on or before 30 March to meet these legislated deadlines.

The Review recognises that by achieving timelier lodgement of Program Provincial Annual Financial Statements to DOF reduced the risk of grant withholding being applied to Program provinces. Accordingly, cash disbursements for provincial services delivery should be more complete in Program than non-Program provinces. This may be confirmed by evaluating Cash Disbursement trends in all provinces for 2008-2013, see next sub-section of this report.

However, the Review also sought to validate that the strategic outcome of timelier lodgement of Program Province Annual Financial Statements with the AGO was also achieved. This outcome promotes public transparency and accountability over sub-national resources and their use, by making the Financial Statements available to Parliament and the Public Accounts Committee on a regular and timely basis. Further, once Provincial Annual Financial Statements have been audited, these can be made public in accordance with DOF protocols on the release of GOPNG financial information.

Accordingly, the Review sought third-party data from the AGO on the timeliness of Annual Financial Statement submitted to the AGO over the Program period of 2008 to 2013; and compared the performance of both Program and non-Program provinces. See Annex 3 for the complete data set provided by AGO.

This data was analysed as a series of individual trend lines, or spark-lines, that chart the submission performance for annual financial statements over five years, on a province-by-province basis. Table 3 below sets out the summary findings of the Review. This table demonstrates that the five-year trend-line for submission of Provinces' Annual Financial Statements to AGO are very similar for both Program and non-Program provinces.

The Program advises that there has been no specific activity to promote submission of Provincial Annual Financial Statements to the AGO, only to DOF. In so doing, the Program has overlooked an opportunity to link to a strategic outcome, being "*Objective 2, Activity (a) - Enhanced accountability and transparency through: Better quality and more timely financial reporting at sub-national level for both management accounting and statutory reporting purposes*".

The next phase of sub-national PFM capacity building needs to support both long-standing

working-level PFM outputs; as well as meet higher-level, strategic PFM outcomes.

**Table 3–Timing for submission of Provincial financial statements to AGO2008-2013: Trend-lines**

PCaB II entry year	Provincial Government	Arrears in months 2009	Arrears in months 2010	Arrears in months 2011	Arrears in months 2012	Arrears in months 2013	Trend line
2008	Fly River	31	38	25	14	2	
2013	Gulf	6	38	25	13	2	
2008	Central	31	29	26	14	2	
	National Capital District	28	16	26	14	2	
2008	Milne Bay	24	28	26	14	1	
	Oro	31	30	25	14	1	
	Southern Highlands	23	38	26	14	2	
	Enga	29	32	25	14	2	
2013	Western Highlands	32	36	26	14	1	
	Simbu	19	31	26	13	2	
2008	Eastern Highlands	36	35	25	13	2	
2008	Morobe	24	36	26	14	2	
	Madang	19	26	25	12	2	
	East Sepik	20	30	26	14	2	
2013	Sandaun	23	30	26	14	2	
	Manus	28	32	26	14	2	
	New Ireland	28	26	25	14	2	
2008	East New Britain	19	26	26	14	2	
	West New Britain	28	26	26	14	2	
2013	Autonomous Region of Bougainville	29	29	26	12	2	
<b>AVERAGE TREND FOR ALL PROVINCES</b>		<b>26</b>	<b>31</b>	<b>26</b>	<b>14</b>	<b>2</b>	

**Cash Disbursement history in Program provinces**

Because the Program has supported and achieved timelier submission of Annual Financial Statements to DOF for pilot provinces; it follows that these provinces will avoid any grant withholdings in subsequent years II and their Cash Disbursement history is likely to be more complete than for non-Program Provinces.

The Review requested a five-year history of Provincial grants cash disbursements from the DOF, Cash Management Branch on 10 June 2014. An Excel template to be completed with DOF, Cash Management Branch data, accompanied this request.

As at the date of this report, a complete data set cannot be located by DOF, Cash Management Branch. DOF continues to look for this data and is willing to provide it to the Review. Consequently, the Review cannot appraise the effectiveness of timelier submission of annual financial statements to DOF for Program Provinces alongside non-Program Provinces; and notes this as a constraint placed on the Independent Review.

### Factors influencing achievement of development outcomes

The Program has been very effective at recruiting and retaining PFM-experienced Program Advisors on consulting salaries; and successfully accommodating them at the provincial level under the terms of the MOU between DOF and the Provincial Administrations. Further, these officers have been supported by individual mini-budgets that enable them to rapidly respond to emerging capacity-building needs in their province.

This methodology for sub-nation PFM capacity building has laid the foundation for the working-level PFM outputs that the Program has achieved. The Review notes that DOF and Provincial PFM managers consider that the Program is more effective than previous DOF and DP funded PFM initiatives at the sub-national level.

The Program factors that have positively influenced these development outcomes are as follows:

- **Full time Advisor on site** – have time to build effective relationships in the province;
- **Experienced Advisors** – are able to offer broad range of useful PFM advice;
- **Consultative approach** – Advisors consult broadly to determine PFM needs;
- **Responsive Annual Work Plans** – able to address emerging issues in the province;
- **Tailored support** – Program activities target the provinces specific PFM needs;
- **Focussed activities** – Advisors achieve specific, agreed results in the time frame; and
- **Resourced to assist** – Advisors can use their budget to quickly meet PFM needs.

The Review is advised that some of these factors are now under pressure; and Program effectiveness may be diluted as a result. Two key matters are:

- A number of Program Advisors note that Advisor consultancy agreements do not contain escalation clauses; and 2008 consultancy fees still apply in 2014. Reduced financial incentives may affect Advisor performance if this continues; and
- DOF counterpart funds of USD1m were not appropriated in the 2014 Budget, apparently due to administrative oversight; and DFAT cost sharing funds were delayed by UNDP acquittals between Port Moresby and New York. The result is that Program Advisor mini-

budgets have not been fully funded in 2014; and their inability to respond to urgent needs has diminished their influence over PFM capacity building in Program provinces.

The Program has not been as effective in achieving strategic PFM outcomes. This can be attributed to both managerial efforts and Advisor skill sets being targeted at the working level outputs of the Program. Any future sub-national PFM capacity building program will need to maintain a dual focus on working-level outputs and strategic outcomes. This will be as a function of the design, managerial oversight methods and reporting through KPIs.

#### Strategy for achieving outcomes

The Review found the strategy for achieving Program outcomes was not as well articulated in the design document as the methodology for achieving Program outputs.

Further, the time taken in the seven-year pilot to achieve outputs has been longer than anticipated; this is partly due to the absence of any clear engagement and graduation criteria in the design. These criteria will need to be considered by the design of the next phase of sub-national PFM capacity building.

#### Integration of the Program into DOF programs reforms

The Program is fully integrated into DOF PFM reforms. The Program represents DOF's sub-national PFM reform initiative; and Provincial Administrations regard Program Advisors as potential substitutes for PTO/ DTO officers.

The Review finds that there are no clearly articulated DOF programs for improving service delivery at the sub-national level, other than through the Program by more efficient accounting and reporting with its anticipated benefits on cash disbursements.

The next phase of sub-national PFM capacity building will need to encompass a more holistic approach to reforms. Further, any Advisors will need to be formally recognised as having DOF authority to consult and advise on capacity building requirements across the whole spectrum of PFM needs in the provinces; and not be limited to DOF-related activities.

#### Lessons Learnt

Sub-national PFM capacity building initiatives need to have the ability to focus on both working-level outputs and strategic outcomes simultaneously if they are to be effective.

#### Conclusions

**The Review recommends** that any future sub-national PFM capacity building initiative:

- Retain the factors that make the Program methodology effective in achieving working-level PFM outputs, but extend them to achieving strategic PFM outcomes. However, these factors need to be refined by including (i) increments in any Advisor consultancy agreements; and (ii) securing reliable funding of Advisor mini-budgets year on year;
- Define criteria for effectively engaging new provinces and exiting existing provinces; and
- Designed so that managerial oversight and KPIs reported maintain an effective focus on

both the working level outputs and strategic PFM outcomes required by GOPNG.

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## Impact

The Review assessed the available evidence to determine the Program’s impact on achieving the three primary Objectives since commencement in 2008. A ‘stop-light’ model is used to visually rate the impact of each Program Activity. Green shaded Activities have good or significant impact on sub-national PFM capacity building.

**Table 4 - Impact of original Program Activities**

<b>Program Objective &amp; Activity</b>	<b>‘Stop-Light’ key of impact of Program to date</b>
<b>1. Effective decentralisation of financial management through the:</b>	
a. Roll-out of the GOPNG Integrated Financial Management System (IFMS) at national and sub-national levels; and	Program has no role in the IFMS rollout; this is directed by DOF-FMIP <sup>11</sup> . Accordingly, the Program has had <b>no impact</b> on the timing or extent of IFMS at the national or sub-national level. This Activity has been discontinued.
b. Roll-out of District Treasury Offices.	Program has no role in the District Treasury rollout; this is directed by DOF-PDFMD <sup>12</sup> . Accordingly, the Program has had <b>no impact</b> on the timing or extent of District Treasury Offices. This Activity has been discontinued.
c. Capacity building of District Treasury Office	Review has sighted physical evidence and consulted with PTO/ DTO that confirm this Program implementation of this Activity has had <b>significant impact</b> on decentralised PFM in nine of the 10 pilot provinces. The exception is Gulf Province (See Annex 5 for details).
<b>2. Enhanced accountability and transparency through:</b>	
a. Better quality and more timely financial reporting at sub-national level for both management accounting and statutory reporting purposes; and	Review has sighted physical evidence and consulted with PTO/ DTO that confirm this Program implementation of this Activity has had <b>significant impact</b> on decentralised PFM in nine of the 10 pilot provinces. The exception is Gulf Province (See Annex 5 for details).
b. use of ICTs for more effective (Provincial ) Treasury management .	Review considers that establishment of Provincial Computer Rooms and the use of Excel reporting formats for Revenue & Expenditure Reports confirm that Program implementation of this Activity has had <b>significant impact</b> on decentralised PFM in most pilot provinces.
<b>3. Improved financial management capacity through:</b>	
a. Capacity building of Provinces and Local-Level Governments to better implement the Public Finances (Management) Act (“the Act”);	Program has undertaken training in Claims Certification and Acquittals, so reinforcing the Act. These Program activities have had a <b>good impact</b> , especially at District level. Skills Transfer programs within Provinces have not been built.
b. Improved strategic planning and coordination, both within PTOs and Provincial Administrations; and	There have been some coordination gains as a result of Program Advisors working with Provincial PFM managers and PLGP Advisors, often on an informal basis. These activities are unstructured and have had <b>limited impact</b> .
c. Research on and better	The Review did not sight any research conducted or published

<sup>11</sup>Page 13, Corporate Plan 2012-2014. Department of Finance, 2012

<sup>12</sup> Page 16, *ibid*.

dissemination of training in examples of improved sub-national financial management.	by the Program. Any lessons learnt are reflected in Activity implementation. This activity has had <b>no impact</b> .
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Only Objective 2, “Enhanced accountability and transparency” is directly referenced as a Program responsibility in the DOF Corporate Plan 2012 – 2014.

The Review finds that some Program Activities have effectively been discontinued; and that any future sub-national PFM capacity building initiative could focus on Activities and KPIs that focus more directly on achieving the single Objective of “Enhanced accountability and transparency”.

### Evidence of improvements

The Program has developed a Performance Management System that requires Program Advisors to record when Monthly Bank Reconciliations and Annual Financial Statements are completed in Program provinces; and the Program reports these improvements in working-level PFM in its Annual Assessment Reports. This System also captures the timing, duration and details of participants attending Program training courses.

The Review commends the establishment and maintenance of the Program Performance Management System; and has confirmed that these Program results are reflected as operational gains in sub-national PFM in pilot provinces. However, the Program has not linked monitoring of its activities to third-party collated KPIs; so there is no independent assessment of Program impacts.

This is a weakness in the Program’s strategy for evidencing impacts and improvements; and makes it difficult for the Program to address any concerns that may arise around the reliability of its internal performance indicators.

Earlier in this report, the Review has made recommendations concerning the need for any future sub-national PFM capacity building initiative to be linked to third party KPIs. Apart from forging clearer links between PFM activities and the stakeholders and beneficiaries who provide the KPI data sets; the use of third-party KPIs will independently validate activity impacts and so lend greater credibility to any reporting of program achievements.

### Unintended consequences

The Program’s success in recruiting good quality Advisors and retaining them in the pilot provinces has had the unintended consequence of Provincial Administrators now requesting Program extensions to enable them to retain these Program Advisors into the long-term.

Earlier in this report, the Review has made recommendations concerning the need for any future initiative to articulate clear criteria for its entry into, and exit from, any Province. These criteria would need to be developed, tested and agreed with a representative sample of Provincial Administrations, to ensure that they are realistic and equitable; and linked to third party KPIs that independently establish whether criteria are satisfied, or not. Under this approach, engagement with a province on sub-national PFM capacity building would not

be time-based, but evidence-based. The achievement of key performance measures would be the evidence needed to determine the timing on entry to or exit from a province.

### Expectation of direct beneficiaries

The Review consulted with numerous beneficiaries, all of whom were positive about the PFM outputs that they had been able to produce as a result of Program activities.

With the exception of Provincial Administrators, who wanted more holistic support to sub-national PFM; very few direct beneficiaries articulated expectations from the Program. The overall impression formed by the Review is that direct beneficiaries have had their expectations realised by the Program.

There was one reference to strategic outcomes as a result of Program activities, being the Program *“benefited to my province with the continuous disbursement of budgeted funds, because we are more accountable now”*<sup>13</sup>.

Noting that better cash disbursement is not a Program indicator, the Review did seek to analyse links between improved accountability and more continuous cash disbursements to determine if this was in fact an outcome of the Program, but was not able to access the needed data.

### Conclusion

The Review concludes that the Program’s Objectives and Activities are more broadly written in design than the actual level of activity undertaken. Further, the Program Design Document was not amended to reflect changed Activities.

Where the Program has focussed its resources on delivering Activities, these have been well implemented and the Review finds that there is internal and anecdotal evidence that the impact of these activities has been significant for sub-national PFM capacity building. External validation of these impacts is missing from the Program monitoring strategy. This observation is valid for 50% of the Program activities by number.

The Review finds that the remaining 50% of Program activities have had limited or no impact on sub-national PFM capacity building because they cannot, or have not, been implemented.

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<sup>13</sup>Mrs. Waneau Songoro, Accounting System Administrator, Western Provincial Treasury office in Kiunga.  
[http://www.pg.undp.org/content/papua\\_new\\_guinea/en/home/ourwork/democraticgovernance/successstories/accounting-in-the-mountains-of-kiunga/](http://www.pg.undp.org/content/papua_new_guinea/en/home/ourwork/democraticgovernance/successstories/accounting-in-the-mountains-of-kiunga/), Internet accessed 15 May 2014.

## Efficiency

### Management arrangements and transaction costs

**Program governance arrangements** through the Steering Committee have been effective in keeping stakeholders engaged in the management of Program activities. However, the Review finds that the Annual Work Plan and Annual Assessment Report formats provided to the Steering Committee are not structured so as to highlighted the divergence between the originally designed Objective and Activities; and those actually being implemented through Program resources.

**The Review recommends** that any future initiative incorporate a similarly representative Steering Committee to govern activities. However, Committee reporting formats need to offer an opportunity to amend Objectives and Activities as needed; and so keep Committee reports both relevant and contemporary and for effective and timely decision-making.

**Financial management arrangements** for the Program are suitable for a pilot initiative with 82% donor funding contributions, but may not serve the needs of a scaled-up sub-national PFM capacity building initiative that is majority funded by GOPNG.

Annex 5 sets out the complex nature and transaction costs imposed on GOPNG by current Program financial management arrangements. The Review considers that UNDP's objective of lowering Program transaction costs by 20% has not been achieved.

Earlier in this report, the Review has recommended that DOF lead a redesign process that considers alternative management arrangements that are suited to a larger initiative with a majority of GOPNG funding.

### Management supervision

The Review confirms that the Program has efficient supervision and advisory management inputs from the senior management team.

Evidence of efficient advisory management is in the strongly positive assessment that Provincial PFM managers give to the appointed Program Advisors. The Program has put effective vetting and selection criteria in place under a merit-based approach; and this has ensured that only properly experienced and qualified advisors with strong ethical values are appointed to the Program. This has been a key factor in the credibility and success of the Program in the pilot provinces; and needs to be emulated in any future initiative.

Further, the Program has been able to make rapid and timely appointments by engaging Program Advisors on market-based contracts. This employment modality has been a key factor in Program success, because it creates a clear incentive for continuous good performance; and needs to be emulated in any future initiative.

Program management advise that the merit-based approach has been defended; often against attempts to "place" senior DOF officers as Program Advisors.

### **Good Practice**

The Review commends the Program for establishing and sustaining a strong, merit-based appointments process; and for strongly defending this against external interference in Program appointments. This is an example of good practice being applied by Program management.

### **Lessons Learnt**

Committee management can only be as effective as Committee reporting enables it to be. The Review considers that all Committee reporting needs to be made against the original design framework, so that the relevance of Objectives and Activities can be re-appraised and amended by Committee processes, as needed.

### **Conclusions**

The Review concludes that the Program has been efficiently managed and administered, but Committee reporting formats need to be made consistent with the original Program design document.

This approach to Steering Committee reporting formats can be incorporated into the next sub-national PFM capacity-building initiative.

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## Sustainability

The Review finds that the Program approach to sub-national PFM capacity building is technically, but not financially, sustainable.

The Program Managers, Trainers and Advisors are Papua New Guineans with the required skill-set to assess provincial PFM capacity building needs; and then implement activities to meet those needs. These skill sets can continue to be refined and deployed within PNG, as long as a suitable vehicle is available to support this work.

The existing Program vehicle for deploying these Advisor skills into the 10 pilot provinces is a UNDP-administered program, that is 82% DP-funded and 18% GOPNG-funded. Because DP programs have a finite budgets and life span, it is unlikely that the existing Program vehicle will be supported much beyond the seven years that it has already operated. Further, it is extremely unlikely that the Program can be scaled-up using additional DP resources.

Further, there appear to be diverging policy goals between the existing Program stakeholders. DOF has determined that it wishes to scale-up and extend long-term Program support into all 21 provinces, excluding NCD; and is willing to resource this initiative. UNDP indicates that it faces resources constraints that will not permit it to increase future funding to the Program. DFAT has signalled that its policy will be to focus on six, or fewer, clearly reform-minded provinces, and so focus its investment for better development outcomes.

Against this backdrop, the Review considers that a 'business as usual' approach is not a sustainable option for future sub-national PFM capacity development.

## Ownership of PFM in Provinces

The Review considers that the main factor frustrating effective ownership of PFM issues at the sub-national level is the artificial demarcation that exists between "Treasury" roles undertaken by the Provincial Administration; and "Finance" roles undertaken by PTO/ DTO.

This demarcation divide is only widened when:

- PDFMD makes late, or under-skilled, appointments to PTO/ DTO, which frustrate the Provincial Administration with weak performances; and
- PTO/DTO isolate themselves from the Provincial Administration by emphasising that they are managed by DOF and require formal letters of request from the Provincial Administration before providing normal levels of assistance.

Provincial Administrators interviewed are acutely aware of the friction and lack of effectiveness that results from this artificial distinction between PFM roles; and actively seek ways to address this divide. Their solutions include appointing Program Advisors to provincial finance committees, roles that would normally be filled by competent PTO/ DTO; and merging PTO/ DTO into the Provincial Administration to create a unified PFM team.

There is an opportunity to resolve this divide and strengthen ownership of sub-national PFM

in the provinces. This is where GOPNG develops a country-wide sub-national PFM program with a clear mandate and the flexibility to provide PFM assistance to both Provincial Administration and PTO/ DTO, without any demarcation disputes being allowed to affect their work.

The Review considers that the current pilot Program is overly “Finance-focused” and supports working-level outputs that underpin DOF functions, without engaging with strategic outcomes that have a sectoral or whole-of-province impact.

The Program has been effective and had sufficient impact as a pilot in six, more recently 10, provinces. However, the scale and scope of sub-national PFM needs that have been identified by the Program now require a more comprehensive and strategic response; and this response needs to be GOPNG-led to ensure optimum ownership and sustainability into the long term.

#### **Assimilating PFM principles into provincial systems**

The Review notes that the PFM principles being reinforced by the Program are those set out in PNG legislation, regulations and instructions. These documents make up the standardised legal framework for sub-national PFM that applies equally all Provinces, Districts and LLGs.

Within this framework, there are clearly articulated responsibilities for sub-national PFM. The central concept is that the Provincial Administrator is the Chief Accountable Officer and is directly responsible for management of all sub-national PFM systems; and for ensuring suitable and timely reporting. This concept is clearly understood by the Program Advisors and strongly reinforced by Provincial Administrators.

It follows that any person working in the field of sub-national PFM in a province is legally accountable for their actions to the Provincial Administrator and his finance staff. No training can be undertaken, or systems change or reporting format proposed, without seeking formal prior approval from the Provincial Administrator and DOF. The Review can confirm that all Program Advisors strictly observe this protocol.

Activities that support and strengthen the standardised legal framework are, by definition, effectively assimilated into the provincial financial management context and system. The Program activities appraised by the Review all supported the standardised legal framework and are therefore properly assimilated.

The Review identified one Program activity that falls outside the standardised legal framework. This is when the Program uses MYOB and QuickBooks to account for DSIP/ LLGSIP in those Districts without PGAS. The Review notes that DOF gave the Program permission for this activity; and training in automated systems is useful to the PGAS rollout.

The Review concludes that all Program activities are properly assimilated into the provincial PFM context.

### **Options for future sub-national PFM capacity building**

Given the scope and scale on on-going need for sub-national PFM capacity building, the Review has considered a number of options for future sub-national capacity building initiatives.

#### ***Ceasing the intervention***

The Review does not consider this a viable option under the present context of sub-national PFM capacity building needs. The seven-year pilot Program has evidenced the need for targeted interventions, delivered by effective and well-managed PNG Advisors, to build capacity in sub-national PFM.

In the Reviews opinion, ceasing the intervention would only become a viable option where GOPNG adopted an outsourcing policy that enabled DOF and Provincial Administrations, as the key stakeholders in sub-national PFM, to substitute public servants with a suitably qualified contractor to undertake the sub-national PFM role.

#### ***Maintaining the Program status quo***

The Review does not consider maintaining the Program 'as is' to be a viable option. The current pilot program is only active in 10 of 21 provinces; and on equity grounds alone there needs to be a vehicle capable of offering support to the other 11 provinces that have sub-national PFM capacity building needs too.

Further, the Review considers the current Program to be in need of more strategic activities and KPIs; and to work across all aspects of provincial PFM need, not only those areas required by DOF functions.

#### ***Maintaining the Program, but alter status quo***

The Review might consider maintaining the Program, but altering its status quo, to be a potential option for future sub-national PFM capacity building if:

- GOPNG and the DPs were not on divergent policy tracks; and
- The Program vehicle was suited to a scaled up level of activity with majority funding from DOF.

However, the Review recognises that these two counter-indicating factors are present in the current PNG context for mobilising the next phase of sub-national PFM capacity building. Because of this, the Review does not consider maintaining the Program, but altering the status quo, to be a viable option.

#### ***Redesigning the intervention***

The Review does consider redesigning the intervention, taking into account the positive features and lessons learnt from the pilot Program, to be a viable option for a future sub-national PFM capacity building initiative. This option will allow an appropriate vehicle to be established that can accommodate DOF and DPs policy aims; and provide sufficient flexibility around funding, staffing and implementation of activities to suit all potential contributors.

## Summary of Recommendations

This section of the report collates and summarises all recommendations made in the body of the report for ease of reference.

**The Review recommends** that any future sub-national PFM initiative include support to all sub-national PFM functions, including those considered as “Treasury” or “DPLGA”-owned. This will require extensive consultation with DOT and DPLGA during design of the next phase of sub-national PFM capacity building to ensure Program Advisors have a clear mandate and the authority to operate across all aspects of sub-national PFM without facing demarcation barriers.

Examples of future activities in this area include:

- Provincial oversight of Warrant Authorities and Cash Disbursements, because of the positive impact on services delivery; with monitoring of the timing of Cash Disbursements as a Key Performance Indicator (KPI);
- Validating the technical accuracy of the Province Budget Chart-of-Accounts (COA) in the Provincial Budget Submissions to assist Treasury, Budgets Division with timely approval of the Province’s Budget, with time taken to approve these Budget Submissions as a KPI;
- Assisting the Provincial Administration to monitor and recover undisbursed Cash from prior years in the current year as Revenue support. Total Cash Disbursed and received across fiscal years as a percentage of Total Warrant Authorities issued is the KPI.

**The Review recommends** that Program Objective 1 remove all legacy ICT activities; Objective 3 be restated to better link to its purpose; and Objective 6 needs to be removed. Further, five Activities need to be discontinued; and some need to be redesigned to link to issue-specific outcomes; with progress monitoring based on relevant and empirical KPIs. Wherever possible, these KPIs need to be third-party sourced to enhance their external reliability.

Recommendations for Program Objective & Activity	Continue <input checked="" type="checkbox"/> , Discontinue <b>X</b>
<b>1. Effective decentralisation of financial management through the:</b>	
d. Roll-out of the GOPNG Integrated Financial Management System (IFMS) at national and sub-national levels; and	<b>X</b>
e. Roll-out of District Treasury Offices.	<b>X</b>
f. Capacity building of District Treasury Office	<input checked="" type="checkbox"/>
<b>2. Enhanced accountability and transparency through:</b>	
c. Better quality and more timely financial reporting at sub-national level for both management accounting and statutory reporting purposes; and	<input checked="" type="checkbox"/>
d. use of ICTs for more effective (Provincial ) Treasury management .	<input checked="" type="checkbox"/>
<b>3. Improved financial management capacity through:</b>	
a. Capacity building of Provinces and Local-Level Governments to better implement the Public Finances (Management) Act (“the Act”);	<b>X</b>

Recommendations for Program Objective & Activity	Continue ✓ <input type="checkbox"/> , Discontinue X
d. Improved strategic planning and coordination, both within PTOs and Provincial Administrations; and	✓ <input type="checkbox"/>
e. Research on and better dissemination of training in examples of improved sub-national financial management.	X
<b>4. Transparency and accountability of public funds</b>	
a. Publishing of key financial information in the Provincial Administration and District Treasury Offices (DTO) on the PCaB administered website; and	✓ <input type="checkbox"/>
b. Tailored training in public financial management responsibilities to Senior Officers in Provincial Administrations and DTOs, to be delivered by outsourced provider(s).	✓ <input type="checkbox"/>
<b>5. Minimising the risk of Corruption</b>	
a. Support convening, operation and functioning of Provincial Audit Committees (PAC).	✓ <input type="checkbox"/>
<b>6. Establishment of PEFA standards</b>	
a. Support DOF Accounting Framework and Standards Division to function as Secretariat to the PEFA National Management Committees and Technical Working Group. Gradually introduce PEFA measurement and monitoring approaches in provinces from 2016 onwards.	X

**The Review recommends** that DOF lead the design process for the next phase of sub-national PFM capacity building in PNG. The design process will need to consider:

- the case and criteria for scaling the pilot Program up to a whole-of-PNG approach;
- restated Program Objectives and Activities to sharpen the focus on services delivery;
- introduction of third-party dependent KPIs to externally monitor Program impact;
- the most effective communication strategy for keeping all stakeholders informed;
- the most realistic time period for the next phase e.g. 5-years, 10-years ,etc;
- likely annual cost of a whole-of-PNG Program and the GOPNG funding commitment;
- the implementation modality best able to retain Program operational advantages;
- the implementation modality best able to incorporate any DP contributions; and
- DP Agreement clauses that commit to financial reporting directly from IFMS.

**The Review recommends** that any future sub-national PFM capacity building initiative:

- Retain the factors that make the Program methodology effective in achieving working-level PFM outputs, but extend them to achieving strategic PFM outcomes. However, these factors need to be refined by including (i) increments in any Advisor consultancy agreements; and (ii) securing reliable funding of Advisor mini-budgets year on year;
- Define criteria for effectively engaging new provinces and exiting from established provinces; and
- Be designed so that managerial oversight and KPIs reported maintain an effective focus

on both the working level outputs and strategic PFM outcomes required by GOPNG.

**The Review recommends** that any future initiative incorporate a similarly representative Steering Committee to govern activities. However, Committee reporting formats need to offer an opportunity to amend Objectives and Activities as needed; and so keep Committee reports both relevant and contemporary and for effective and timely decision-making.

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## **ANNEXES**

*Draft for Discussion Purposes Only*

## Annex 1 – Terms of Reference for Independent Reviewer PCaB II



### Economic & Public Sector Program

Strengthening key government institutions to support equitable service delivery to the men, women and children of Papua New Guinea

### Terms of Reference

<b>Consultant Title</b>	Independent Reviewer- Provincial Capacity Building Programme Phase II (PCaB II)
<b>Project</b>	The Economic Public Sector Program (EPSP)
<b>Project Report</b>	Program Director, EPSP
<b>Duration period</b>	90 days (continuous or periodic over 6 months)
<b>Remuneration range</b>	TBC
<b>PURPOSE / OBJECTIVES</b>	
<p>The Economic and Public Sector Program (EPSP) is an Australian Government, Department of Foreign Affairs and Trade (DFAT) initiative, a partnership between the Governments of Australia and Papua New Guinea. The goal of EPSP is to provide an effective and efficient public service that focuses on service delivery for the men, women and children of PNG. The program also aims to create an enabling environment for broad-based economic growth.</p> <p>The Papua New Guinea “Organic Law on Provincial and Local Level Governments” (OLPLLG) was implemented in 1997, which essentially aims to devolve substantial financial management functions and responsibilities – planning, budget and finance – to the sub-national level (Provincial, District, and Local Level Governments). In support to the OLPLLG, the Financial Management Improvement Program (FMIP) was developed to promote transparency and build capacities in financial management within and between the national, provincial and local-level governments of PNG. Specifically, it aims to achieve the following goals:</p> <ul style="list-style-type: none"> <li>• Sound fiscal management</li> <li>• Effective decentralisation of financial management</li> <li>• Allocation of resources in accordance with government priorities</li> <li>• Utilisation of resources to achieve value for money</li> <li>• Enhanced accountability and transparency</li> </ul> <p>The FMIP is direct DFAT and UNDP through various initiatives including the Provincial Capacity Building Programme Phase II (PCaB II).</p> <p>PCaB II is the UNDP and DFAT supported programme which focuses on capacity building in sub-national treasury functions. It builds on the developments of previous initiatives of the FMIP as well as sub-national capacity building efforts by other arms of the Government including the Provincial Performance Improvement Initiative (PII). PCaB II is consistent with the overall aim of the FMIP, which is “to implement best practice and transparency in government financial management within and between National, Provincial and Local-level Governments in Papua New Guinea.”</p> <p>The proposed goal of PCaB II is to strengthen sub-national financial management capacity in a sustainable manner. To meet this overall goal, the three primary objectives of PCaB II are:</p>	

**1. Effective decentralisation of financial management, by:**

- Supporting efforts to roll-out the IFMS at the national level and prepare sub-national financial managers for the planned introduction of IFMS;
- Supporting the district treasury roll-out through training and capacity building initiatives.

**2. Enhanced accountability and transparency, by:**

- Improving the quality and timeliness of financial reporting at the sub-national level to ensure compliance with legal requirements and to provide sub-national administrations with accurate and up-to-date information on their finances;
- Supporting effective treasury management systems incorporating more effective use of ICTs.

**3. Improved financial management capacity, by:**

- Building sub-national capacity to implement the Public Finances (Management) Act and the Organic Law on Provincial and Local Level Governments;
- Improving strategic planning and coordination of treasury functions (within treasuries and with the administration) at sub-national levels;
- Ensuring better delivery and dissemination of training and research on sub-national financial management, drawing on the experiences of the provinces that have taken early initiatives to improve financial management.

In September 2010, the program underwent a Mid-Term review. The review found that in overall there were indications of good progress in improvements of the capacity of provincial treasury staff, and to a lesser extent at the district and LLG level. There was qualitative evidence to suggest that this has led to improved compliance to financial management and reporting requirements. These improvements in treasury functioning are a result of a combination of genuine improvements in capacity and direct technical input by advisors.

In December 2012, the PCaB II programme ended in its second phase. During this year an Exit Strategy document was approved by the PCaB Steering Committee (SC) meeting. There SC made a decision to sustain the programme. The committee members opted for option one in the Exit Strategy Report which was to extend the project for a short period (no more than one or two years) as a mode of a Transitional Phase for a new extended country-wide programme. This was because there was insufficient time to plan and elaborate a new project proposal in 2012 (national elections), obtain its approval and run a resource mobilisation effort.

For the development of the 2013 transitional period, the SC members also agreed to:

- i) Gradually extend the PCaB programme to new priority provinces
- ii) Incorporate three new components, namely: Transparency and accountability of public funds; Minimising the risk of Corruption; and, the establishment of PEFA standards.

Thus, during 2013, the PCaB programme incorporated four new provinces: Gulf, Western Highlands, AR Bougainville and West Sepik province. The new components were also implemented and progress are so far well established and published in the PCaB Annual Assessment Report for 2013.

Finally, during 2013, the PCaB programme extension document for 2014-2018 was elaborated, approved by the SC meeting and published. It is currently under implementation.

**Evaluation Objectives**

The design of PCaB II covers a five-year period, 2008-2012. The aim of the evaluation is to assess progress

and achievements in programme implementation and targets, impact on beneficiaries and sustainability issues. The evaluation would also assess whether the programme should continue in its present form or incorporate design changes to reflect shifts in circumstances and requirements. The main stakeholders of the review are the Government of Papua New Guinea, UNDP, DFAT and the Provincial Treasurers.

This evaluation will provide the stakeholders with a clear analysis of the programme success and key lessons learned, and strategic recommendations that could enhance the programme in supporting Government's efforts to implement the "Organic Law on Provincial and Local-level Governments" and donor support to Public Financial Management (PFM) and service delivery reforms.

Within this context, PCaB II will be evaluated against the five OECD DAC criteria of: relevance; effectiveness; efficiency; impact; and sustainability; and the additional three criteria of: monitoring and evaluation; gender equality; and analysis and learning.

**1. The review will examine the relevance of the programme by:**

- Reaffirming that a financial management capacity building intervention directed at the sub-national (Provincial and District) level in support of the FMIP is a continuing area that needs support.
- Identifying and reporting on stakeholder expectations - including The Department of Finance, relevant Provincial Government managements and donors (DFAT and UNDP) and expectation achievement. Expectations may include such matters as reporting on progress, steering group arrangements, cost efficiency and advisor support and the contribution of expectations to achieving significant changes.
- Identifying linkages and synergies to other programmes, programmes and activities both of Government and the donor community.
- The relevance of the new Programme's components namely: Transparency and accountability minimising the risk of corruption, and the establishment of PEFA international standards.

**2. The review will comment on the effectiveness of the programme by:**

- Assessing and reporting on the effectiveness of PCaB II as an intervention into building capacity – i.e. to what degree has progress been made to achieving what it has set out to do (outputs) and progress towards achieving the overall objectives (outcomes) as per the Programme Document and subsequent Annual Work Plans.
- Analysing the underlying factors beyond the programme's control that influence the achievement of development outcome.
- Analysing whether the strategy for achieving these outcomes been effective/appropriate?
- Assessing the degree to which PCaB II is integrated into the broader system of PNG Public Financial Management and service delivery reforms, including its integration within the Department of Finance plans and programmes.

**3. The review will assess the impact of PCaB II by:**

- Assessing evidence regarding achievement of the three primary objectives of PCaB.
- Assessing any evidence of improvements/changes that have occurred as a result of the activity, including how are they evaluated or recorded and the nature and context of changes.
- Assessing any unintended consequences, good & bad, of the activity and responses to the consequences by stakeholders.
- Assessing expectation of direct beneficiaries (provincial and district treasuries staff) with regards of programme intervention and how they are traduced in changes in their lives.

**4. The review will examine the efficiency of the programme by:**

- Assessing to what extent the management arrangements minimise transaction costs of the PCaB Program implementation (or financial management?)
- Evaluating the capacity and structure of supervisory and advisory management in place, including the delivery of inputs in terms of quality, quantity and timeliness

**5. The review will comment on the sustainability of the programme by:**

- Analysing the level of ownership of financial management in Provinces, and the main constraints/opportunities for improving ownership for this programme.
- Assessing the level to which advisors are accountable to provincial administrators/treasurers and GoPNG and the method, levels and effectiveness of assimilating financial management principles into the Provincial Financial Management context and system.
- Identifying possible scenarios for PCaB II including discussion and recommendations on alternative options to providing support to the Department of Finance\FMIP, apart from the current model such as, but not limited to:
  - Ceasing the intervention (with a rationale i.e it could be because while the focus is no longer appropriate, the implementing contractor is not, or it could be the approach has failed to achieve any impacts and the focus is all wrong!)
  - Maintaining the intervention by maintaining the status quo including justification and evidence for this.
  - Maintaining the intervention by altering the status quo – move from one or more (including all) of the 6 existing sites and take the intervention to a number of new sites – up to an agreed number. Provide rationale for this approach eg move from existing Provinces based on evidence of effectiveness and sustainability, or because political environment does not enable programme inputs to be effective.
  - Maintaining the intervention by altering the status quo – maintain existing sites and adding more. Would also need to provide evidence, as above, plus cost-effectiveness of UNDP over other options, such as SNS/EPSP
  - Maintaining the intervention, at an agreed number of sites but move away from some or all of the existing areas of focus ( e.g. financial reporting, accountability and transparency, minimise the risk of corruption and PEFA) and incorporate a move to additional or alternative areas – e.g. trust account financial management, procurement, budgeting management reporting, etc.

**PLACEMENT RESULTS**

**Outcomes:**

- Develop the Evaluation Methodology
- Undertake a field mission to the Provinces listed above and undertake interviews
- Draft a report
- Submit report to DFAT and UNDP for appraisal
- Complete Final Evaluation Report and Validation Report

**ACCOUNTABILITY/ WORKING RELATIONSHIPS**

Working Relationships

- Program Director – Economic and Public Service Program
- DFAT
- GoPNG
- UNDP

- Provincial Treasurers

#### Provinces to Interview

- PCaB Pilot provinces- Milne Bay & East New Britain
- New PCaB provinces- Gulf & Western Highlands
- Non PCaB provinces- Madang

#### SPECIFIC ACTIVITIES

##### Activities required to achieve placement results as follows:

- **Assess the overall performance of the programme** with reference to its respective strategies and objectives; suitability and efficiency of implementation arrangements including monitoring and evaluation, organisational and management structure; contribution to capacity building; role and effectiveness of Advisor inputs, outputs, and indicators as stated in the respective programme document;
- **Review the partnership and cooperation between the stakeholders** as well as links with the national and local governments; examine PCaB II's collaboration and engagement with partners; review links to other Government and donor programmes.;
- **Evaluate the programme outcomes in terms of relevance and effectiveness** in light of the emerging country context, priorities and development strategies; how the programme addressed local challenges, its main achievements and overall impact, sustainability of programme achievements, as well as the remaining structural gaps not addressed by the programme. The review process will focus specifically on the progress made by the existing **programme and any developments in the FMIP Programme**.
- **Identify good practices and initiatives** that worked well or that can be potentially applied to this or other programmes, as well as gaps, weaknesses and initiatives that should be avoided in future;
- **Identify key and significant lessons learnt for donors** (UNDP and DFAT) and the PNGGO, that can be drawn from the experience of the programme and its results (in terms of design, strategy, sustainability, impact, results and achievements); and
- **Provide clear analysis and concrete recommendations** on how the review results can contribute to PCaB II and/or future support to PFM and service delivery.

#### PERSON CRITERIA

##### Qualifications

- Tertiary Qualifications related to Economics, Public Sector Policy, Monitoring and Evaluation or similar.

##### Experience/knowledge

- Work experience in program monitoring and evaluation, program design and/or activity completion reporting.
- A comprehensive knowledge of PNG financial systems.
- An extensive understanding of development programs, their operational processes and systems and what makes an effective and efficient program.
- Demonstrated experience in conducting and managing research and technical assignments in a developing country context.
- High level report writing skills, particularly within the field of monitoring and evaluation.
- An understanding of the PNG development context and general aid environment initiatives, change management, risk management, cultural change and capacity development programs within a

public sector environment.

- Ability to communicate effectively with a diverse range of people and cultures, representing client organisations, governments and agencies.
- Ability to effectively self-manage the allocation of priorities and deadlines with minimal supervision.

**Other**

- Possession of a current driving license.
- Evidence of high ethical standards and commitment to high quality work.

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## Annex 2 –UN System National Execution Modality

The Program is administered by UNDP Port Moresby, and implemented through the National Execution modality with DOF as the Implementing Partner.

UNDP and DFAT Program resources pass through the PNG UN Country Program Fund. The UNDP's contribution is from UN core resources; and DFAT funds are provided as earmarked non-core resources. DFAT's cost-sharing contribution is first paid to UN's Administrative Agent in New York, the Multi-Partner Trust Fund Office; and then transferred to the PNG UN Country Program Fund as requested by the PNG Country Office.

Both UNDP core funding and DFAT non-core funding are subsequently transferred into DOF PCaB Trust Account managed by FMIP. GOPNG funds are directly deposited to this Trust.

Because DOF will receive more than USD500,000 during the Country Program period, it will be externally audited each year. Annual audits have been performed, including for 2013, but the Auditors Management Letter has not been received for 2013.

UNDP employs the quarterly Direct Cash Transfers modality under the UN Harmonised Approach to Cash Transfers (HACT) to Implementing Partners, because DOF is regarded as a low risk partner. DOF is required to provide UNDP with Quarterly acquittals using UN-specific Funding Authorisation and Certificate of Expenditure (FACE) forms.

GOPNG has foregone 8% of DFAT contributions in UN charges (1% MPTO, 7% UNDP), or USD768,000 on DFAT contributions of USD9.6m (2008-2014). This opportunity cost equates to two full-time Program Advisors, each contracted for seven years.

HACT is UN's response to the Paris Declaration on Aid Effectiveness; with the following aims:

- Shifts to a risk management approach for UN cash transfers;
- Implementation Partners will spend less time on administrative procedures;
- Decreases complexity of procedures;
- Reduces transaction costs for partners -20%; and
- Increasing use of national systems.

In response to audit review points in previous years, FMIP has employed two full-time administrative staff to prepare quarterly UNDP FACE forms. UNDP requires these forms to be prepared in a QuickBooks General Ledger; and the UNDP chart of accounts stipulated for FACE forms is unrelated to the IFMS vote index used by the DOF PCaB Trust Account.

The Review considers this funding model is complex; subject to delays during Canberra/ New York/ Port Moresby/ DOF funds transfers; UN charges are significant; and it is costly to employ two extra staff to manage the parallel UN QuickBooks and FACE forms. The Review finds this funding modality does not support HACT, or Paris Declaration, objectives.

The Review concludes that there may be more effective funding models for future sub-national PFM capacity building initiatives, especially where DOF is the majority funder.

# Annex 3 – Provincial Annual Financial Statements (2009 - 2013)

Office of the Auditor General

Provincial Financial Statements Performance: 2009 - 2013

(Prepared May 2014 & updated September 2014)

Division	Provincial Government	2009						2010						2011						2012						2013					
		Financial Statement performance			Audit Performance			Financial Statement performance			Audit Performance			Financial Statement performance			Audit Performance			Financial Statement performance			Audit Performance			Financial Statement performance			Audit Performance		
		Due date	Submitted date	Arrears in months 2009	Disclaim	Disqualify	True and Fair	Due date	Submitted date	Arrears in months 2010	Disclaim	Disqualify	True and Fair	Due date	Submitted date	Arrears in months 2011	Disclaim	Disqualify	True and Fair	Due date	Submitted date	Arrears in months 2012	Disclaim	Disqualify	True and Fair	Due date	Submitted date	Arrears in months 2013	Disclaim	Disqualify	True and Fair
271	Fly River	31-Mar-10	29-Oct-12	31	✓		31-Mar-11	29-Apr-14	38	✓		31-Mar-12	02-May-14	25	✓		31-Mar-13	03-Jun-14	14	✓		31-Mar-14	30-May-14	2		31-Mar-14	30-May-14	2			
272	Gulf	31-Mar-10	06-Oct-10	6	✓		31-Mar-11	08-May-14	38	ML No FS		31-Mar-12	11-Apr-14	25	ML No FS		31-Mar-13	11-Apr-14	13	ML No FS		31-Mar-14	30-May-14	2		31-Mar-14	30-May-14	2			
273	Central	31-Mar-10	29-Oct-12	31	✓		31-Mar-11	22-Aug-13	29	✓		31-Mar-12	12-May-14	26	✓		31-Mar-13	02-Jun-14	14	✓		31-Mar-14	30-May-14	2		31-Mar-14	30-May-14	2			
274	National Capital District	31-Mar-10	20-Jul-12	28	✓		31-Mar-11	03-Aug-12	16	✓		31-Mar-12	30-May-14	26	✓		31-Mar-13	30-May-14	14	✓		31-Mar-14	30-May-14	2		31-Mar-14	30-May-14	2			
275	Milne Bay	31-Mar-10	26-Mar-12	24	✓		31-Mar-11	30-Jul-13	28	✓		31-Mar-12	07-May-14	26	✓		31-Mar-13	03-Jun-14	14	✓		31-Mar-14	01-May-14	1	ML No FS	31-Mar-14	01-May-14	1	ML No FS		
276	Oro	31-Mar-10	29-Oct-12	31	✓		31-Mar-11	12-Sep-13	30	✓		31-Mar-12	25-Apr-14	25	ML No FS		31-Mar-13	30-May-14	14	✓		31-Mar-14	12-May-14	1	ML No FS	31-Mar-14	12-May-14	1	ML No FS		
277	Southern Highlands	31-Mar-10	16-Feb-12	23	✓		31-Mar-11	29-Apr-14	38	✓		31-Mar-12	08-May-14	26	✓		31-Mar-13	12-May-14	14	✓		31-Mar-14	30-May-14	2		31-Mar-14	30-May-14	2			
278	Enga	31-Mar-10	21-Aug-12	29	✓		31-Mar-11	27-Nov-13	32	✓		31-Mar-12	09-Apr-14	25	ML No FS		31-Mar-13	30-May-14	14	✓		31-Mar-14	30-May-14	2		31-Mar-14	30-May-14	2			
279	Western Highlands	31-Mar-10	08-Nov-12	32	✓		31-Mar-11	19-Mar-14	36	✓		31-Mar-12	30-May-14	26			31-Mar-13	30-May-14	14			31-Mar-14	25-Apr-14	1	ML No FS	31-Mar-14	25-Apr-14	1	ML No FS		
280	Simbu	31-Mar-10	25-Oct-11	19	✓		31-Mar-11	09-Oct-13	31	✓		31-Mar-12	08-May-14	26	✓		31-Mar-13	09-May-14	13	✓		31-Mar-14	30-May-14	2		31-Mar-14	30-May-14	2			
281	Eastern Highlands	31-Mar-10	05-Mar-13	36	✓		31-Mar-11	27-Feb-14	35	✓		31-Mar-12	02-May-14	25	✓		31-Mar-13	05-May-14	13	✓		31-Mar-14	03-Jun-14	2	ML No FS	31-Mar-14	03-Jun-14	2	ML No FS		
282	Morobe	31-Mar-10	05-Mar-12	24	✓		31-Mar-11	03-Mar-14	36	✓		31-Mar-12	27-May-14	26	✓		31-Mar-13	29-May-14	14	✓		31-Mar-14	29-May-14	2	✓	31-Mar-14	29-May-14	2	✓		
283	Madang	31-Mar-10	25-Oct-11	19	✓		31-Mar-11	28-May-13	26	✓		31-Mar-12	07-Apr-14	25	CP No FS		31-Mar-13	07-Apr-14	12	CP No FS		31-Mar-14	30-May-14	2		31-Mar-14	30-May-14	2			
284	East Sepik	31-Mar-10	25-Nov-11	20	✓		31-Mar-11	12-Sep-13	30	✓		31-Mar-12	07-May-14	26	✓		31-Mar-13	30-May-14	14	✓		31-Mar-14	30-May-14	2		31-Mar-14	30-May-14	2			
285	Sandaun	31-Mar-10	29-Feb-12	23	✓		31-Mar-11	30-Sep-13	30	✓		31-Mar-12	09-May-14	26	✓		31-Mar-13	03-Jun-14	14	✓		31-Mar-14	30-May-14	2		31-Mar-14	30-May-14	2			
286	Manus	31-Mar-10	24-Jul-12	28	✓		31-Mar-11	28-Nov-13	32	✓		31-Mar-12	12-May-14	26	✓		31-Mar-13	28-May-14	14	ML No FS		31-Mar-14	05-Jun-14	2	ML No FS	31-Mar-14	05-Jun-14	2	ML No FS		
287	New Ireland	31-Mar-10	01-Aug-12	28	✓		31-Mar-11	22-May-13	26	✓		31-Mar-12	29-Apr-14	25	✓		31-Mar-13	30-May-14	14	✓		31-Mar-14	30-May-14	2		31-Mar-14	30-May-14	2			
288	East New Britain	31-Mar-10	25-Oct-11	19	✓		31-Mar-11	14-May-13	26	✓		31-Mar-12	08-May-14	26	✓		31-Mar-13	03-Jun-14	14	✓		31-Mar-14	30-May-14	2		31-Mar-14	30-May-14	2			
289	West New Britain	31-Mar-10	01-Aug-12	28	✓		31-Mar-11	14-May-13	26	✓		31-Mar-12	24-May-14	26	✓		31-Mar-13	23-May-14	14	✓		31-Mar-14	30-May-14	2		31-Mar-14	30-May-14	2			
290	Autonomous Region of Bougainville	31-Mar-10	29-Aug-12	29	✓		31-Mar-11	09-Aug-13	29	✓		31-Mar-12	12-May-14	26	✓		31-Mar-13	29-Mar-14	12	ML No FS		31-Mar-14	30-May-14	2		31-Mar-14	30-May-14	2			
291	Hela																														
292	Jiwaka																														

ML No FS = Prepared Management Letter, did not conduct Financial Statements audit

CP No FS = Critical Paragraph prepared for AGO Annual Report, did not conduct Financial Statements audit

**Annex 3 – Provincial Cash Transfers (2009 - 2013)**

Not Available

Draft for Discussion purposes Only

## Annex 5 – Gulf Province: A case study in lessons learnt

In mid-2013, DOF directed the Program to urgently engage with Gulf as a new pilot province. The Program responded by sending a “surge” team of up to four Advisors into Gulf Province to address up to six years arrears in bank reconciliations and annual financial statements preparation at PTO/ DTO and LLG levels.

This DOF request and the Program response were related to media coverage on the very poor PFM practices identified by the AGO in Gulf Province.

The Review notes the following points arising from the Program surge into Gulf:

- PTO and Kerema DTO were reported by AGO to have regularly destroyed supporting finance forms and documentation, usually through incineration;
- Program Advisors were not able to physically enter the PTO to sight financial records;
- Senior PFM positions were vacant, or changed hands often, during the surge period;
- Program Advisors, using copies of bank statements and costing all activity to “Administration”, reconstructed PTO, Kerema DTO and LLG cashbooks over a six-month period of intensive work;
- There were no PTO, Kerema DTO and LLG source documents or cashbooks to reconcile to these reconstructed records;
- The Program used these unreconciled, reconstructed cashbooks to prepare six years of Annual Financial Statements, which Gulf Province submitted to AGO for audit;
- AGO has disclaimed these Gulf Annual Financial Statements, because they do not meet PFMA requirements to reconcile source documents/ cashbook balances to bank records;
- DTO Kerema was not fully established during the rollout. The back-up generator was purchased, but not supplied to site. The two vehicles purchased for DTO Kerema were found to be in Popondetta, Northern Province and Port Moresby, NCD. This severely limited DTO Kerema’s operational capacity;
- DTO Kikori was able to provide the Program with DTO and LLG bank reconciliations and annual financial statements; and
- DTO Kikori was found to have been relocated and operating from a hotel located in Waigani, NCD. Neither DOF nor the Program were aware of this physical relocation of DTO Kikori, despite the surge activity. DOF did not approve this relocation.

The Review concludes that there were very few enabling conditions to support the Program successfully engaging with Gulf Province.

As a result, Program Advisors have committed significant amounts of time and resources to reconstructing cashbooks and Annual Financial Statements for PTO, DTO Kerema and LLGs that are without technical validity or audit credibility, because they are not reconciled to source accounting documents.

Consultations with Gulf PFM managers found that there was little by way of capacity developed during the Program surge; and the Program Advisor is currently residing in Port Moresby and travelling to Gulf during the week, due to the lack of housing and office space provided by the Gulf Provincial Administration. The Review consider that the impact of on-going PFM capacity building efforts in Gulf Province is limited.

### **Lessons learnt**

The Review identifies several factors that militated against a successful Program engagement in Gulf Province. Any future sub-national PFM capacity building initiative needs to ensure that the following minimum criteria are in place before it engages with a province. The reason for this is the first lesson learnt in Gulf; being, if these criteria are not met, the Program may not engage effectively in the province. The minimum Program entry criteria identified by the Review includes:

- Provincial Administration to evidence its support for Program MOU conditions by allocating dedicated housing and office space before Program Advisors are mobilised;
- Program confirms that all PFM officers are appointed and in post;
- Provincial Administration to formally direct all senior PFM officers to make themselves freely available to Program Advisors;
- Program physically verifies the existence of source accounting records;
- Provincial Administration to formally direct all staff to make source accounting records freely available to the Program;
- Program physically verifies that DTO infrastructure and PGAS rollout is complete in all Districts; and
- Provincial Administration provides a Status Report that details all key information regarding sub-national PFM operations.

The second lesson learnt in Gulf is that there are limits to the technical capacity of the Program. It was not technically feasible to reconstruct annual financial statements that complied with the Public Finances (Management) Act from bank statements only. In future, both DOF and the Program need to immediately recognise and document this kind of limitation during its appraisal of entry criteria; and not engage further with the province.

The third lesson learnt in Gulf was that the Program is fully integrated into DOF; and needs to have a formal referral protocol for similar situations. Where it is not technically feasible to assist a province, because minimum entry criteria are not satisfied, the next step for the Program is to formally refer extensive failures of PFM to the Secretary of Finance.

Secretary then has a basis for considering options to address this failure of PFM. Options may include preparing an NEC Submission seeking a write-off of prior years unreconciled grants; suspension of Provincial PFM management officers; installation of a DOF PFM Management Team in the province for a supervisory period determined by DOF and NEC; or other actions as appropriate.

## Annex 6 – Review standard survey instruments

### PA meetings

PA –

Introduction – PCaB II started 2008 and ends December 2014. Joint GOPNG/ GOA funding.

Reason for Independent review - to better harmonise and align Australian Aid programs with GOPNG policy priorities and objectives in next phase.

Reason for meeting PA – importance of effective PFM to achieving provincial development goals.

Questions for PA and staff:

PCaB II Independent Review question	PA WHP response
<b>PCaB II history in the Province</b>	
1. How long have you served as PA?	1.
2. Are you aware of the PCaB II initiative?	2.
3. Who are the PCaB II Advisors in your Province? (Phillip and Delilah)	3.
4. How long have these PCaB II Advisors been placed in the Province?	4.
5. Are there any other initiatives of either Government or Donors supporting financial management in the Province?	5.
<b>PCaB II support for Finance functions?</b>	
6. How has PCaB II supported Finance functions in the Province? a. Bank reconciliations (backlog?) b. Financial Statements (backlog?) c. DSIP returns (Quarterly?) d. Other?	6.
7. What is PCaB II's best achievement?	7.
8. What has PCaB II not been able to achieve?	8.
<b>Provincial planning, budgeting and CFC preparation?</b>	
9. Are there PPII advisors to support Provincial planning and budgeting, full or part-time?	9.
10. Do PCaB II advisor(s) support Provincial planning and budgeting? How?	10.
11. Does the Province have a Budget preparation tool? Please describe ( <i>Microsoft Word, Excel, etc.</i> )	11.
12. Does Provincial Treasury validate Budget	12.

Vote Index and arithmetic accuracy of appropriations sought <u>before</u> budget goes to Treasury Waigani? (Can reduce technical errors and speed up Waigani Budget review)	
13. What Warrant Authority, Cash Transfer and CFC release issues does the Provincial Administration face?	13.
14. How long does the Provincial Administration take to issue CFCs <u>after</u> Warrant Authorities and Cash Transfers are received?	14.
15. Does Provincial Treasury advise Provincial Administration of all Cash Transfers received on a regular and timely basis?	15.
16. Does the Province have a CFC management tool? Please describe ( <i>Microsoft Word, Excel, etc.</i> )	16.
<b>PCaB II performance and management?</b>	
17. Are there any concerns regarding PCaB II advisors or their work in the Province?	17.
18. Has the Provincial Administration found it necessary to refer any concerns about the advisors or their activities to PCaB II Program Management in Waigani?	18.
19. Is the PCaB II Program well managed from your viewpoint?	19.
20. How can PCaB II Advisor TORs or the PCaB II Program design be improved to better support the Province?	20.

Notes:

**PT meeting**

PT -

PAcc-

<b>PCaB II Independent Review question</b>	<b>PA WHP response</b>
<b>PCaB II history in the Province</b>	
21. How long have you served as PT?	21.
22. Are you aware of the PCaB II initiative?	22.
23. Who are the PCaB II Advisors in your Province? (Phillip and Delilah)	23.
24. How long have these PCaB II Advisors been placed in the Province?	24.
25. Are there any other initiatives of either Government or Donors supporting financial management in the Province?	25.
<b>PCaB II support for Finance functions?</b>	
26. How has PCaB II supported Finance functions in the Province? a. Bank reconciliations (backlog?) b. Financial Statements (backlog?) c. DSIP returns (Quarterly?) d. Other?	26.
27. What is PCaB II's best achievement?	27.
28. What has PCaB II not been able to achieve?	28.
<b>Provincial planning, budgeting and CFC preparation?</b>	
29. What CFC release issues does the Provincial Administration face?	29.
<b>PCaB II performance and management?</b>	
30. How can PCaB II Advisor TORs or the PCaB II Program design be improved to better support the Province?	30.

Notes:

**DTs meeting**

DT -  
DT -  
DT -  
DT -

<b>PCaB II Independent Review question</b>	<b>PA WHP response</b>
<b>PCaB II history in the Province</b>	
31. How long have you served as DT?	31.
32. Are you aware of the PCaB II initiative?	32.
33. Who are the PCaB II Advisors in your Province? (Phillip and Delilah)	33.
34. How long have these PCaB II Advisors been placed in the Province?	34.
35. Are there any other initiatives of either Government or Donors supporting financial management in the Province?	35.
<b>PCaB II support for Finance functions?</b>	
36. How has PCaB II supported Finance functions in the District? a. Bank reconciliations (backlog?) b. Financial Statements (backlog?) c. DSIP returns (Quarterly?) d. Other?	36.
37. What is PCaB II's best achievement?	37.
38. What has PCaB II not been able to achieve?	38.
<b>Provincial planning, budgeting and CFC preparation?</b>	
39. What CFC release issues does the District Administration face?	39.
<b>PCaB II performance and management?</b>	
40. How can PCaB II Advisor TORs or the PCaB II Program design be improved to better support the Province?	40.

Notes:

### Annex 7–Documents reviewed

<b>Title</b>	<b>Publisher</b>
2010 Annual Management report	Department of Finance, 2011
Corporate Plan 2013 to 2015	Department of Finance, 2013
Discussion Paper: 2014 Reorganisation PDM&PCaB Integration	Provincial and District Financial Management Division, July 2014
Government, Money Arteries & Services. The 2012 Provincial Expenditure Review with trend analysis from 2008 to 2012	NEFC, November 2013
Independent Auditors Report to the United Nations Development Programme in respect of the Combine Delivery Report of the Provincial Capacity Building Project Phase II – (Project ID: 00059940) for the year ended 31 December 2010	KPMG, 31 May 2011
Management Letter – Provincial Capacity Building Project	HLBNiugini, 31 May 2010
Papua New Guinea Sub-National Strategy, Mid Term Review	DFAT, 2 November 2010
PCaB 2009 Annual Assessment Report	UNDP, June 2011
PCaB 2011 Annual Assessment Report	UNDP, January 2012
PCaB 2012 Annual Assessment Report	UNDP, December 2012
PCaB 2013 Annual Assessment Report	UNDP, December 2013
PCaB Exit Strategy	UNDP, January 2012
PCaB Programme extension for 2014 - 2018	UNDP, July 2013
PNG Aid Program Public Sector Governance Strategic Plan (2014-15)	DFAT, 13 February 2014
Provincial Capacity Building Programme Phase II – Mid Term Review	DFAT, October 2010
Provincial Capacity Building Programme Phase II (PCaB II) 2008 - 2010	UNDP, 18 December 2007
Review of Revenues Available to Provinces for the Provision of Basic Services Delivery	NEFC, February 2014
The PER Trend Databook. Trend Analysis Data By Province - Eight years from 2005 to 2012	NEFC, 2013

## Annex 8 – Persons Met

NATIONAL DEPARTMENTS AND AGENCIES	
<b>Department of Finance</b>	
Hon. James Marape	Minister of Finance
Dr Ken Ngangan	Secretary for Finance
Mr Gabi Kila	FAS Provincial and District Financial Management
	AS Southern Region, PDFM
	AS Highlands Region, PDFM
	AS Islands Region, PDFM
	AS Momase Region, PDFM
Mr Tom	AS Investigations, Internal Audit Division
Mr Kasi	AS Compliance, Internal Audit Division
Mr Senda	AS Audit, Internal Audit Division
<b>Provincial Capacity Building Program Phase II</b>	
Mr Sam Erepan	National Program Coordinator
Mr Tito Balboa	Chief Technical Specialist
Ms Ruth Wauneta	PEFA Advisor
Mr WitariTauve	Training Coordinator
Mr Nelson Nakule	ICT Advisor
Mr Philip Angopa	Provincial and District Support Advisor, EHP
Ms Delilah	District Support Advisor, EHP
Mr CannanManiot	Provincial and District Support Advisor, Gulf Province
Mr Willaim Daniel	Provincial and District Support Advisor, ENB
Mr Francis Gumembi	Provincial and District Support Advisor, MBP
Mr Martin Gele	Provincial and District Support Advisor, Central Province
Mr Geoffrey Kedeke	Provincial and District Support Advisor, ARB
<b>Auditor General's Office</b>	
Mr Gordon Kega	Assistant Auditor General, Provincial & LLG Audit
Mr Newman Barziring	Assistant Auditor General (B), Provincial & LLG Audit
<b>Department of Provincial and Local Government Affairs</b>	
Mr Ray Kala	Assistant Director Program Coordination PPII
<b>Department of National Planning and Monitoring</b>	
Mr Reichert Thanda	FAS Foreign Aid Division
<b>National Economic and Fiscal Commission</b>	
Mr Loy D'Souza	Strategic Management Advisor
Mr Alan Cairns	Consultant
Mr Roy Sorame	Decentralised Finance Officer
PROVINCIAL GOVERNMENTS	
<b>Eastern Highlands Province</b>	
Mr Joseph Neng	Provincial Administrator
Mr Timothy Rapala	Provincial Treasurer
Mr Jonah	Provincial Accountant
Ms Johanna Kitika	District Treasurer, Dei
Ms Nancy Wia	District Treasurer, Hagen Central

Mr Clem Gilat	District Treasurer, MulBaiyer
Mr Tobias Wira	District Treasurer, Tambul Nebilyer
<b>Gulf Province</b>	
Mr Stanley Haurahaela	Provincial Treasurer
Mr Koivi	District Treasurer, Kikori
Mr Elijah Sungovare	District Treasurer, Kerema
<b>Milne Bay Province</b>	
Mr Michael Kape	Provincial Administrator
Mr Cliff	Provincial Treasurer
Mr Lindsey Alasana	District Administrator Alotau
Mr Gordon Bakua	District Treasurer, Kiriwina
Mr PontauSolon	Local Governance Advisor
<b>Madang Province</b>	
Mr Gabriel Saul	Provincial Treasurer
<b>East New Britain Province</b>	
Mr Edward	Deputy Provincial Administrator
Mr Steven Tamti	Provincial Treasurer
Ms Robyn Tiotam	Provincial Accountant
Mr MarakanUvano	District Administrator, Brabant
Mr Henry Vinarang	District Treasurer, Gazelle
Mr Elias Sakias	District Administrator, Gazelle
Mr Walom	District Administrator, Kokopo
Mr RivanKenas	District Administrator, Kokopo
<b>DEVELOPMENT PARTNERS</b>	
<b>Department of Foreign Affairs and Trade, Commonwealth of Australia</b>	
Mr Nicholas Murphy	First Secretary (Governance)
Mr Steve Hogg	Senior Governance Specialist
Mr Geoffrey O'Keefe	Second Secretary (Development Cooperation)
Ms Ire Olewale	Program Manager, Development Cooperation
<b>United Nations Development Program, Port Moresby</b>	
Mr SukhrobKhoskmukhamedov	Deputy Resident Representative
Mr JorgSchimmel	Assistant Resident Representative (Programmes)
<b>EPSP Rapid Assessment Study</b>	
Ms FiuWilliams	Cash Flow Management Specialist
Mr Camillus Midire	Provincial and District Treasury Specialist
<b>Provincial and Local Government Program</b>	
Ms Judy Sipendi	Finance & Budget Advisor Team, PLGP
Mr Stephen	Finance & Budget Advisor Team, PLGP

# Independent Evaluation of PCaB II-E

## Exit Report

Vulupindi Haus - 11 July 2014  
at 10:30am



## Aim of Independent Evaluation of PCaB II-E

- The aim of the evaluation is to:
  - assess progress and achievements in programme implementation using 5 OECD DAC criteria of relevance; effectiveness; efficiency; impact; and sustainability;
  - assess whether the programme should continue in its present form or incorporate design changes to reflect shifts in circumstances and requirements; and
  - provide the stakeholders with a clear analysis of the programme success and key lessons learned, and strategic recommendations.
- Conducted by Peter Heijkoop, supported by PCaB TA Sam and Tito.
- Desk and in-PNG work commenced 12 May; Exit Report on 11 July; and Draft Report due 26 September.

## Consultations with PCaB II-E Stakeholders

### **Provinces** consulted by the Review were mixed:

- WHP, Gulf – 2013 “*new*” PCaB Provinces;
- Milne Bay, ENB – 2008 “*mature*” PCaB Provinces; and
- Madang – non-PCaB Province, but has requested assistance before.

### **Other stakeholders** consulted include:

- DPLGA, AGO – National Agencies
- DOF Internal Audit, PDFMD – Finance Divisions
- PLGP TA and Rapid Assessment Team – associated DP initiative
- UNDP – implementation partner

### **Standard questionnaires** used to ensure a consistent methodology

## Presentation of PCaB II E Review findings

The Review's analysis and lessons learned are summarised under the main headings of:

- Relevance
- Effectiveness
- Efficiency
- Impact
- Sustainability

Strategic Recommendations follow in a later section of this Exit Report.



## Relevance of PCaB II E

**The Review finds PCaB to be highly relevant now and into the foreseeable future.**

The Review found that PGs value the following “PCaB-type” characteristics:

- **Full time** – PCaB TA have time to build relationships in PG;
- **Experienced** – TA able to offer broad range of useful PFM advice;
- **Consultative** – PCaB consults broadly across PA and PTO roles in PFM;
- **Responsive** – PCaB willing to address emerging issues through plan;
- **Tailored** – PCaB activities meet essential provincial PFM needs;
- **Focussed** – TA achieve specific, agreed results in the time frame;
- **Resourced** – TA can use PCaB budget to quickly meet needs.

## Relevance of PCaB II E – cont’d

Continuing relevance of PCaB is underscored by the following factors:

- **Sub-national PFM “landscape” changes often** – e.g. DSIP now K10m, direct to DOA & FI changed; DDA coming; PHA in 6 provinces;
- **Staff turnover in PA, PTO and DTO** - is often frequent; and
- **LLG and Ward level funds management** – is now required from participants with minimum PFM skill sets and experience.

Against this backdrop of change, PGs value a capable and responsive PFM resource, such as PCaB that achieves results re OL S114. PTOs do not meet this need; PAs are concerned they cannot under DOF current practices.

PGs want PCaB-type support for PA managed PFM functions e.g. Planning, Budgeting, Resources Mobilisation and Performance Reporting re OL S119.



## Effectiveness of PCaB II E

**The Review finds PCaB effective in improving PTO operations (for quantitative outcomes), but has little effectiveness in strengthening PA-managed budgeting and procurement processes (for qualitative outcomes).**

This finding highlights a structural constraint on the impact that any PFM program can have when it is only linked to DOF. There are two parts to sub-national PFM, as set out in the table below:

PA-managed PFM processes	Who manage?	PTO-managed PFM processes
Planning & Budget	Cash Transfers	CFC entry into PGAS to enable exp.
Warrant Authorities		Funds Available/ Certification/ Payments
CFC issue to PTO to fund exp.		Bank reconciliation/ Reporting
Program expenditure by FF3s		Annual Financial Statements

## Effectiveness of PCaB II E – cont'd

The Review assessed links between PPII/ PLGP and stronger qualitative aspects to PA PFM roles:

- In ENB and MBP, with full-time PLGP TA, PAs report budget resource allocation was reinforced by PPII, but the technical quality of Budget Vote Index (Chart of Accounts) submitted to DOT remains weak; and
- AGO Management Letters refer to PFM qualitative issues in ENB, MBP.
- In provinces supported by PPII/ PLGP on fly in – fly out basis, no measurable impact was noted on PA PFM qualitative outcomes.

Reconciliation of DOT Warrant Authorities to Cash Transfers from DOF CMB into PTO/ DTO bank accounts appears to fall between PA and PTO in the provinces reviewed. This gap in sub-national PFM oversight needs to be addressed to improve program funding certainty and timeliness.



## Efficiency of PCaB II E

**The Review finds that up to 2014, program management of PCaB resources has been efficient and has supported the attainment of program outputs, but Paris objectives are not being reinforced.**

- In 2014, GOPNG funds were not included in the Budget and PCaB TA program budgets cannot be funded. Delivery of PCaB program outputs is reduced as a result; and PCaB TA report they are losing credibility.
- PCaB is cost-efficient through sub-contracting of good quality national consultants. However, PCaB TA remuneration contracts have not been incremented since 2008. PCaB risks losing the ability to attract and retain good quality national consultants; and may breach Australian Commonwealth Procurement Guidelines on ethical sub-contracting.
- PCaB requirement to process UNDP FACE forms adds to transaction costs and does not support Paris objectives.



## Impact of PCaB II E

**The Review finds that PCaB II E has had significant positive impacts in 6 mature and 3 new Provinces.**

Examples of PCaB II E impacts noted by the Review include:

- Ability of DTO/ LLG staff to properly reconcile a PGAS cashbook to the bank statement on a monthly basis;
- Policy advice on the correct treatment of major reconciling items, e.g. bank fees and stale cheques accumulated over many years;
- Ability of DTOs to produce quarterly DSIP returns on a timely basis;
- Ability of PTOs to prepare consolidated Revenue & Expenditure reports;
- Ability of PTO/ DTO to produce Annual Financial Statements from PGAS files imported into Excel, unassisted by PCaB in mature provinces; and
- PCaB TA advise the PA directly on provincial PFM working groups.

## Impact of PCaB II E – cont'd

However, experience in Gulf highlights the limits to PCaB's impact; and reinforces the different PFM roles of PA and PTO. Lessons learned are:

- PCaB cannot be effective absent a functional PA, PTO and full PFM records. The PCaB Baseline Survey needs to confirm these pre-conditions exist as criteria for PCaB entry into a Province;
- PCaB needs to be able to recognise situations where it cannot have an impact and advise DOF accordingly; and
- PCaB needs to be supported by an effective DOF referral mechanism that escalates major PFM breaches to high-level decision-makers for the appropriate policy response with the province concerned.

## Sustainability of PCaB II E

**The Review finds that PCaB-type initiatives are sustainable longer-term, but existing program characteristics will need to be retained to ensure the same impact can be achieved.**

PCaB sustainability is demonstrated by:

- Willingness of Provinces to cost-share full-time PCaB inputs under an MOU with DOF;
- Provinces expressed willingness to cost-share with DOF for short-term “PCaB-type” inputs, especially where there is a need for a specific “surge” effort after graduation from full-time PCaB TA in the province;
- Provinces estimated that their need for PCaB-type inputs will extend over 15 to 20 years, based on very low base of PFM skills in LLGs and Wards and past inability to lift PFM standards through PTO/ DTO.





## Strategic Recommendations for PCaB II E

### Main conclusions:

- PCaB is reviewed against a recent history of DP support for sub-national PFM since 1999, or for the past 15 years.
- PDFMD acknowledges that for structural reasons PTO/DTOs cannot be re-configured to deliver “PCaB-type” outcomes.
- PCaB II offers a working formula that both DOF and Provinces now want widely replicated and delivered over a sustained period.
- DP program delivery modalities unlikely to meet this commitment.
- DOF now needs to invest in a major scaling-up of PCaB-type activity and PFM improvement at the Sub-national level. This will involve:
  - Replicating “PCaB-type” characteristics within the DOF structure;
  - Resourcing PDFMD for progressive engagement with all aspects of sub-national PFM, including PA-managed PFM tasks; and
  - a program funding modality that enables DP cost-sharing.



## Strategic Recommendations for PCaB II E – cont'd

### **Recommendations:**

Based on the Review's findings and lessons learned, the following strategic recommendations are made to PCaB stakeholders:

- Extend PCaB in its current modality for a further three years; and use this period to prepare to transition to an alternative PCaB delivery model funded by and located within DOF-PDFMD. Delink PCaB from IFMS, District Treasury roll-outs and a PEFA role.
- Goals for the proposed transition phase of PCaB may be:
  - Establish protocols with DIGR to enable support for both PA PFM (qualitative) and PT PFM (quantitative) outcomes to be improved;
  - Establish protocols within DOF for PCaB to refer policy proposals and major breaches of PFM to competent authorities for direct follow up and a high-level policy response;

## Strategic Recommendations for PCaB II E – cont'd

- Enhance the PCaB-developed 'Budget & Expenditure Status Report' to incorporate monitoring of Cash Transfers from DOF-CMB;
- Develop graduation guidelines for "mature" PCaB provinces;
- Collate PCaB training and facilitation materials from all current TA. Focus on recording methodology and participants materials used, rather than developing formal training manuals.
- Develop Sub-national PFM performance indicators that can be used to determine the need for a PCaB-type initiative in a province in future. This can be linked to sub-national PEFA development by DOF.
- Develop TOR for an Independent Annual Review of sub-national financial management performance indicators, in partnership with NEFC. This will provide DOF with an objective score-card on how Sub-national PFM is performing across both PA and PT PFM roles.



## Strategic Recommendations for PCaB II E – cont'd

- DOF and DPM to determine ways and means to replicate “PCaB-type” conditions for TA within PDFMD. Without these conditions, the successor arrangements to PCaB II E will not have the same impact.
- DOF to cost and make adequate budget provision for PCaB-type initiative within PDFMD that covers all provinces, AGB excepted. A place-holder name for this initiative may be the “PCaB Task Force”.
- DOF to cost and make adequate budget provision for PDFMD to have the outreach to become an effective management and enforcement arm for improved Sub-national PFM. This will include funding to transfer, accommodate and secure well-performing PTO/DTO officers into those provinces in need of significant strengthening.