

PART 5 - PUBLIC ACCOUNT – LOCAL LEVEL GOVERNMENT

DIVISION 1 - PRELIMINARY

1. The Public Account consists of two Funds, viz
 - (a) The General Revenue Fund, and
 - (b) The Trust Fund
2. All public moneys are to be paid into the Public Account either to the credit of the **General Revenue Fund or the Trust Fund**. Surplus moneys, that are not immediately required, may be invested by the Secretary for Finance subject to any specific direction from the Minister for Finance & Treasury and in accordance with **Section 12** of the Act.
3. Investments out of the Trust Fund shall be deemed to be part of the Trust Fund, while investments from the Consolidated Revenue Fund will be part of that Fund. Income arising from such investments will, however, be credited to the General Revenue Fund irrespective of the source of the investments unless the investment relates to the Trust Fund and the relevant trust instrument or any legal provision requires a different treatment.
4. Bank Accounts
 - 4.1 Section 11 of the Public Finances (Management) Act 1995 provides that public moneys shall be kept in such bank or banks as the Secretary for Finance directs subject to any specific directions of the Minister. Where banking facilities do not exist public moneys shall be kept in such manner as the Secretary for Finance directs.
 - 4.2 Where banking facilities exist, public moneys are to be kept in accounts at a bank approved by the Secretary for Finance taking into consideration directions, if any, from the Minister for Finance & Treasury. Where they do not exist, the Secretary will issue directions as to the manner in which they are to be kept.
 - 4.3 If a Local Level Government requires to open a bank account to conduct its operations, the District Administrator should submit full justification with the amount of advance required to open the account, to the Department of Finance. The justification should be based on the estimated out-turn of the entity, capacity and capability to keep the bank account reconciled up to date.
 - 4.4 All moneys, including internally raised revenues by Local-level Governments collected and banked through these bank accounts are public moneys as defined under Section 2 of the Act.

- 4.5 No Bank Account may be opened or operated without the consent in writing of the Secretary for Finance.

4.6 Transfer of Funds

For Local-level Government, the equivalent amount of funds will be transferred directly to their respective operating accounts based on the approved warrants for LLGs. The respective LLGs should account for this amount of money in their cashbook.

4.7 Bank Reconciliation:

It is a mandatory requirement that all District Administrators to ensure that Local-level Governments reconcile their Bank Accounts on a monthly basis. Bank balances should be reconciled against the Cashbook balance and the reconciled Cash Book balance should be agreed with the Local-level Government transactions. All copies of Bank Reconciliation Statements should be forwarded to Accounting Frameworks and Standards Division, Department of Finance no later than 14 days of the close of each month.

All bank accounts should be reconciled monthly and bank statements and monthly reconciliation statements should be forwarded to the Accounting Framework and Standard Division, Department of Finance not later than 14 days after the close of each month.

Failure to comply with the above, may necessitate withholding further issuance of Warrant Authorities.

DIVISION 2 – LLG CONSOLIDATED REVENUE FUND

5. All public moneys raised or received for the purposes of government (including loan moneys but not including moneys payable under any law or on account of the Trust Fund) are to be paid into the Public Account to the credit of the LLG Consolidated Revenue Fund.

This includes any short term investment in bank deposits or any other investment under **Section 12** of the Act and advances made in accordance with the Act.

DIVISION 3 - TRUST FUND

6. The Trust Fund comprises the balances standing to the credit of various Trust Accounts established for the purposes as approved by the Minister for Finance & Treasury or prescribed by any law. The procedure for opening and operating trust accounts is dealt within Part 16 of this Manual.

DIVISION 4 - ACCOUNTING SYSTEMS

7. The accounting systems and records maintained by the various Departments are subsidiary to the accounting systems and records of the Department of Finance.
8. Local-level Governments may issue subsidiary instructions for the proper operation and effective management of their offices and agencies, but these instructions should not contravene the **financial instructions, regulations or the Act**. Where exemptions or deviations from the prescribed procedures are considered necessary because of the special requirements of a particular Local-level Government, the Local-level Government concerned should go to the Department of Finance for the issuance of an appropriate Finance Circular.
9. All Local-level Governments and their agencies and offices should submit their monthly statements of accounts to the Department of Finance **within 7 days** of the end of the month, for incorporation in the General Ledger.
10. District Treasuries using the Standardised Government Computerised Accounting System (PGAS) for Finance Department and other department's operations must ensure direct interface takes place into the General Ledger.

APPENDIX 1 - OVERVIEW OF THE GOVERNMENT ACCOUNTING SYSTEM

I. ACCOUNTING PRINCIPLES AND CONCEPTS

1. Government accounts are maintained on cash basis. Receipts and expenditure are brought to account only when money is actually collected or when a payment is made. Cost of goods and services received in one year is brought to account in the year of payment and not spread over the years during which they may be used. Similarly, if revenue receivable in one year is not actually received in that year, its accounting will be deferred until it is received.
2. A distinguishing feature of the Government financial system is the concept of fund entities, which is derived from the fact that the legislature controls public finances. According to the fund entities concept, government revenues and loans accumulate under a fund and withdrawals therefrom to meet expenditure are strictly governed by authorisation by Parliament through structured channels. If an obligation incurred during a year is not met during or before the close of the year, it has to be carried forward and met from next year's Parliamentary authorisation, and cannot be met from unspent revenues of the year in which the obligation was incurred. Parliamentary authorisations (or appropriations) are annual but there are special dispensations within the concept to allow for revolving fund operations of a quasi-commercial nature, usually under trustee arrangements. Under these arrangements, Parliamentary appropriations, either for start-up assistance in the form of initial working capital or budget subsidies for operations, are paid into a separate fund or the balances under this fund are carried forward from year to year. Monies raised by such activities which get paid into the fund are subject to vigorous control as normal public expenditure.
3. If an expenditure is incurred on a service in one year and a recovery is made or a refund is received or a cheque is returned not delivered to the payee in relation to that expenditure in the subsequent year, the recovery, refund or the value of the cheque banked will be credited to Revenue (Appropriation of Former Years) in the subsequent year's account. Thus, if an airline ticket is purchased in 2004 and if a refund is obtained from the airline company in 2005 because the ticket was not utilised, refund will be credited to Revenue in 2005. Similarly, if salary is overpaid erroneously in one year and is recovered in the next year, the recovery will be credited to Revenue. No attempt shall be made to raise the budgeted allocations by crediting to the expenditure votes, recoup of overpayments, refunds received and other recoveries for services paid for in the previous years.
4. If expenditure is incurred in one year and recovery is made or refund is received or cheque is returned without delivery to the payee in respect of that expenditure within the same year, the recovery, refund or value of

cheque banked will be credited to the expenditure vote thereby adding to the availability of funds.

5. No refund of revenue shall be made by charging the revenue. All refunds have to be made charging the expenditure votes for Refunds included under Appropriation Act.
6. Offshore loans received in kind under which international agencies pay suppliers directly for services or goods supplied, by treating them as part of the loan to the Government, must be brought into account both as loans (revenue ledger) and as expenditure.
7. Grants and loans received in cash, even if they are specific to projects, will be accountable as revenue.
8. Grants received in kind will not however be reflected in the accounts.

II - FINANCIAL AND MEMORANDUM ACCOUNTS

9. Since Government accounts are kept on a cash basis it is imperative that subsidiary accounts are maintained to provide a complete view of the assets and liabilities of the Government and are kept reconciled to the financial accounts as far as possible. The following are the major memorandum records that are subsidiary to the financial accounts:
 - (a) Uniform register showing the date of purchase of each item of capital nature (classified under the sub-category 210, 220 and 230 with over K1,000 in value and with normal life of more than one year) its cost price, description, distinctive (serial and model) number, date of final disposal and method of disposal.
 - (b) Debtors accounts showing the name and address of each debtor, amount due, reference to the demand notice, debit note or other source document, date of receipt of cash, amount received, receipt number and other useful information.
 - (c) Vendors' accounts showing accounts received from suppliers (or personal claims) and registered for payment, particulars of payments, if not paid - stage at which pending.
 - (d) Advances Ledger showing payments either charged to votes or to Advances account analysed by name and address of the advance holder, amount, date of advance, when acquitted, refund amount (if any) received, date of final acquittal of an advance.

III - GENERAL LEDGER

10. The General Ledger (or Main Appropriation Ledger) which is the main financial account is maintained in three parts:

- Revenue
 - Expenditure
 - Trust
11. **The Chart of Accounts** follows closely the budget format using the internationally recognised classifications based on International Monetary Fund guidelines.
 12. **Expenditure Ledger** uses a format breaking down the expenditure (outlay) into Division (Department/Province), Indicator (Recurrent/Project), District (District/Electorate) Local Level Government (LLG), Grant No, Function, Program, Activity and item.
 13. **Revenue Ledger** uses a format breaking down the receipts in Groups, Heads, Division, Districts, Local Level Government and Sub-Heads. There are five groups Departmental Revenue, General Revenue (Tax and Non Tax), Loan, Grants, and Financing. Each Group is further broken into Heads(name of department or nature of receipt classified into broad categories) and Sub-Heads (specific nature of receipts).
 14. **Trust Ledger** is kept in two sub-parts, one for payment and the other for receipts and the trust accounts are identified by their code numbers allocated by the Department of Finance (Trust Section) and are grouped under the following categories.
 - *Finance Operating (Non Bank) Trust Accounts*
 - *Finance Operating (Bank) Trust Accounts*
 - *Trust Bank Accounts*
 - *Trust Investment Accounts*
 - *General Trust Fund Account (With Bank Account)*
 - *General Trust Fund Account (Without Bank Account)*
 - *Invested Trust Fund Account*

IV - SUB APPROPRIATION LEDGERS

15. Provincial Treasuries will maintain sub-appropriation ledgers by consolidating accounting data received from the District Treasuries and Cash Offices, Local Level Government assigned to each Provincial Treasury Office for all transactions in provinces falling under the National Budget.
16. National Departments, having drawing accounts, maintain sub appropriation ledger in respect of transactions processed at the headquarters of the

department. Those without drawing accounts maintain commitment ledger and other subsidiary records, and do not prepare monthly trial balance.

17. The Finance Accounts Branch, Waigani have the responsibility to collect money in respect of all receipt transactions processed at the headquarters of all national departments. For this purpose they maintain the RPM Account. They are also responsible for all payments in respect of National Departments without drawing accounts and in respect of their own offices. For these payments, they operate on a drawing account. The FCB, Waigani maintain sub appropriation ledger for these transactions.

V - CASH MOVEMENTS

18. **Cash Office Imprests:** Cash Offices operate in the provinces at district levels and at headquarters. They have cash provided to them based on Cash Fund Certificates which shall be replenished to the extent of any grant due to a particular Local level Government.
19. District Treasuries operate the same way as Cash Offices.
20. **Provincial Treasury Offices (Operating Accounts):** All Provincial Treasury Offices have operating accounts for receipt and payment of grants, to receive CFC related cash on behalf of National Departments and moneys remitted for trust payments.
21. **National Departments (Drawing Accounts):** All national departments that have drawing accounts should be reimbursed from Waigani Public Account as often as decided.
22. **Receiver of Public Moneys:** All National Departments and Provincial Treasuries operating these accounts should transfer all receipts to Waigani Public Account on daily basis.
23. **Waigani Public Account:** This is the main bank account of the Government and all revenues will be transferred into it either directly from collecting centres (Internal Revenue Commission) or through RPM accounts. Also Australian and other overseas grants, domestic and overseas borrowings, service receipts toward repayments of loans, income from investments and other miscellaneous revenues are directly received in this account. Major payments such as debt service charges, grants to Provinces, transfers from Provincial Treasury offices and Statutory Bodies and reimbursements to Drawing Accounts of National Departments and the Sydney Office are made directly from this account.

VI - MONTHLY STATEMENT OF ACCOUNT

24. Accounting data, showing receipts and payments for the National Government and Local-level Governments, is submitted periodically by District Treasuries and Cash Offices, with supporting documents to Provincial Treasury Offices

who incorporate this financial data into their accounts along with data on transactions taking place at Provincial Treasury headquarters.

25. Provincial Treasury Offices make weekly accounting returns showing receipts and payments for the entire Province (save Provincial Government and Local-level Governments revenue or expenditure falling within their budgetary jurisdiction) analysed by the standard chart of accounts to the Provincial and District Financial Management Division of the Department of Finance. Weekly returns will be supported by documents relating to movement on trust accounts and other extracts as prescribed by Department of Finance.
26. National Departments having drawing accounts, and Finance Accounts Branch, Waigani will process their sub-appropriation ledgers daily and draw up trial balances not later than the 7th day of the following month for incorporation in the Main Appropriation Ledger.

VII. GENERAL LEDGER

27. Expenditure Ledger of the General Ledger (or the Main Appropriation Ledger) will have information recorded for funds movements as well as commitments and outlays.

Funds Movements: This part will contain the original appropriation, reallocations approved between line items for existing services, additional funds allocated for existing services or new services from the Secretary's Advance and the revised appropriation and funds progressively released through Warrant Authorities.

Commitments: The commitments made during the month will be recorded from information received along with the trial balance from Provincial Treasury Offices, National Departments having drawing accounts, and from Finance Accounts Branch, Waigani in respect of transactions processed by them. In regard to National Departments at the headquarters (without self accounting status) whose accounts are also processed by Finance Accounts Branch, Waigani, they will send commitment information directly to the Expenditure and Cash Management Division by the 7th of the following month. In submitting these status reports, progressive commitment to the end of the month will also be shown.

Outlays: The actual payments made during the month will be recorded from the trial balances received from agencies and journal entries and the trial balance for Waigani Public Account transactions prepared at Finance Headquarters. Also, progressive expenditure to the end of the month will be shown.

Variance: A variance analysis will be provided showing the difference between the actual progressive expenditure and funds released through Warrant Authorities.

Over Commitment: An analysis will be provided showing: (a) Over commitment as the difference between progressive funds released through Warrant Authorities and progressive commitment to the end of the month, and (b) outstanding commitment as the difference between progressive commitment and progressive expenditure to the end of the month.

28. The Revenue Ledger will show the original and revised estimate and the actual collections during the month and to the end of the month together with a variance analysis.
29. The Trust Ledger will show the opening balance, receipts and payments during the month and the closing balance under each trust account.

VIII QUARTERLY STATEMENTS OF ACCOUNTS

30. Statements of accounts at the end of each quarter must be published in the National Gazette to satisfy requirements of **Section 3 (2) of the Act**.

IX ANNUAL CLOSING OF ACCOUNTS

31. Since all appropriations lapse at the end of the year, no cash payments can be made after the close of the fiscal year, although book adjustments may be carried out until the books are finally closed.
32. Statements prepared at the end of the year disclose the information which the Public Accounts Committee needs for full evaluation of the financial performance of the National Government.
33. Public Accounts are submitted to the Auditor General for an annual audit into these accounts. The audited final accounts are submitted by the Minister to the National Parliament. The accounts and the Auditor General's report thereon are tabled in Parliament in the same session