

**SUBJECT: DISTRICT SERVICE IMPROVEMENT PROGRAM
TRUST GUIDELINES**

1. INTRODUCTION

- 1.1** This Finance Instruction is issued under Section 117 of the *Public Finances (Management) Act, 1995*, by the Secretary for Finance as the departmental head responsible for financial management, for better control of public funds and effective implementation of the District Service Improvement Program Funding.
- 1.2** This Instruction is legally binding and enforceable. Officers who breach the provision of this Instruction may be liable for penalties prescribed by the *Public Finance (Management) Act, 1995* and/or other relevant laws.
- 1.3** This Instruction supersedes all previous Instructions issued on the management of District Service Improvement Program Funds, including Finance Instructions 4/2006 and 1B/2005.

2. PURPOSE

- 2.1.** This Instruction details the guidelines for the use of the District Service Improvement Program Trust Funds.

3. BACKGROUND

- 3.1.** The Government, through the 2007 Additional Supplementary Budget (Refer **ATTACHMENT 1**) and the 2008 Budget (Refer **ATTACHMENT 2**), has allocated a total of K890 million for priority expenditures within the 89 Districts to be managed through the District Service Improvement Program Trust Account.
- 3.2.** Each of the 89 Districts will receive once off appropriation of K10 million to be spent on infrastructure rehabilitation and maintenance **over the next 5 years**. Projects must fall under the programs and within the financial allocation as per the Appropriation Bills as follows:

DISTRICT SERVICE IMPROVEMENT PROGRAM	APPROVED ALLOCATION	LESS 3% ADMINISTRATION FUND	ACTUAL ALLOCATION AVAILABLE
Education	K 2,000,000	K 60,000	K 1,940,000
Health	K 2,000,000	K 60,000	K 1,940,000
Law and Justice	K 2,000,000	K 60,000	K 1,940,000
Water Supply	K 2,000,000	K 60,000	K 1,940,000
Agriculture	K 1,000,000	K 30,000	K 960,000
Transport	K 1,000,000	K 30,000	K 960,000

3.3. Should a District wish to spend outside of the approved allocation for a particular program, a submission should be forwarded through the Department of Finance to the Inter-Departmental Committee, consisting of the Department of Finance, Department of Treasury, Department of National Planning and Monitoring, Department of Works and the Office of Rural Development, for consideration. Reallocations will only be approved where there are legitimate circumstances, and only within the pre-approved District Service Improvement Programs listed in paragraph 3.2.

4. PROGRAM GUIDELINES

4.1. Budget Circular 7 of 2006 titled *Implementation of the 2007 Budget* outlines the key legal requirements for the spending of the supplementary budget appropriations, including:

- Appropriation Act requirements;
- responsibilities under Section 5 of the *Public Finances (Management) Act 1995*;
- requirements of Section 15 to 21 of the *Public Finances (Management) Act 1995* which deal with Trust Accounts;
- the responsibilities of Agency Heads to ensure the provisions of the *Public Finances (Management) Act, 1995* are complied with and that the 2007 Budget is implemented consistent with the decisions of Government and the legal requirements set out elsewhere in the Budget Circular.

4.2. Districts, through the District Administrator, will be responsible for identifying projects.

4.3. Districts shall liaise with Provincial Works Managers to ensure project scoping, design and documentation is in accordance with Government works standards.

4.4. All project proposals shall be reviewed by the Joint District Planning and Budget Priority Committee (JDP&BPC) in line with the District Development Plan.

- 4.5. Project proposals reviewed by JDP&BPC shall be submitted for approval to the Provincial Project Evaluation Team (see 6.4. for composition of this Team).
- 4.6. Once project proposals have received approval the Office of Rural Development will arrange the release of funding into the District's subsidiary bank account in line with the cash flow requirements of the project.
- 4.7. This Finance Instruction sets out in more detail the key requirements that must be met in relation to the use of Supplementary Budget Trust Funds.

5. PROGRAM PRINCIPLES

- 5.1. The DSIP is designed for a holistic approach to service delivery, involving all stakeholders including the Members of Parliament, National Departments and agencies, Provincial Administrations, District Administrations and the recipients themselves (the people), taking into account the principles of ownership, affordability, sustainability and leadership. Underpinned by these principles are the following factors which are critical to the success of the program:
 - (a) Sweat Equity: Village communities are important partners of the DSIP and therefore should participate directly in the implementation of the program.
 - (b) Drive by Provincial and Local Level Governments: Provincial and Local Level Governments will drive the DSIP in their respective provinces by resourcing any financing gaps.
 - (c) Involvement by Members of Parliament: Open Members of Parliament provide Political Leadership and will allocate necessary funds towards the financing of financing gaps (i.e. DSG).
 - (d) Partnership among All Stakeholders: The program components will be delivered using existing systems and processes of the government.

6. ROLES AND RESPONSIBILITIES

- 6.1. The Districts, through the District Administrator, will be responsible for:
 - Identifying projects;
 - Inviting and pre-qualifying contractors;
 - Monitoring and reporting on the progress of projects to the Provincial Project Evaluation Team and / or Office of Rural Development; and
 - Project implementation and management.
- 6.2. The Department of Works will be responsible for:
 - Assisting Districts ensure project design and documentation conform to Government works standards;

- Provision of standard design documents; and
 - Project monitoring and supervision.
- 6.3.** The JDP&BPC will be responsible for:
- Consideration and prioritization of projects and budgets consistent with the Five Year District Development Plan and scope of appropriation; and
 - To oversee, co-ordinate and make recommendations as to the overall district planning, including budget priorities, for consideration and approval by the Provincial Project Evaluation Team (for projects valued less than K3,000,000) or the Office of Rural Development (for projects valued greater than K3,000,000).
- 6.4.** The Provincial Project Evaluation Team (comprising the Provincial Works Manager the Provincial Planner, the Provincial Treasurer, the District Administrator and the Provincial Administrator (as Chairman)) will be responsible for:
- Final appraisal, evaluation and approval of all projects valued up to K3,000,000;
 - Liaise with Provincial Supply and Tenders Boards to prepare documentation, invite tenders and complete tender evaluation for projects valued up to K3,000,000;
 - Assist with formulation of contracts and monitoring of contracts and projects in provinces; and
 - Prepare consolidated quarterly progress reports covering all Districts within the Province.
- 6.5.** The Office of Rural Development is responsible for:
- Final appraisal, evaluation and approval of all projects with a value greater than K3,000,000;
 - Liaise with the Central Supply and Tenders Board to invite tenders with a value greater than K3,000,000;
 - Facilitation of drawdown of funds to District Treasuries following the approval of project proposals, in line with cash flow requirements; and
 - Monitoring District Service Improvement Program projects and providing progress reporting to:
 - The National Project Implementation Committee;
 - Department of Finance;
 - Department of Treasury; and
 - Department of National Planning and Monitoring.
- 6.6.** The Department of National Planning and Monitoring will be responsible for:
- Assisting the Office of Rural Development in providing Project Identification procedures and documentation;
 - Assisting the Office of Rural Development in specifying guidelines to assist in the delivery of the District Service Improvement Program and compliance with this Finance Instruction; and
 - Coordination of overall Development Budget reporting to CACC and NEC.

- 6.7.** The Department of Treasury will be responsible for:
- Budget issues and release of warrant;
 - Providing advice to the Provincial Project Evaluation Team and the Office of Rural Development on recurrent budget impacts as required; and
 - Coordination of overall Fiscal Responsibility Reporting, including the Final Budget Outcomes and the Mid Year Economic and Fiscal Outlook Report.
- 6.8.** The Department of Finance will be responsible for:
- Facilitation of drawdown of funds to District Treasuries following the approval of project proposals, in line with cash flow requirements; and
 - Ensuring functional Provincial Supply and Tenders Boards and Provincial Authority to Pre-Commit Committees exist within each Province.
- 6.9.** Provincial Supply and Tenders Boards (where functional) will be responsible for:
- Inviting tenders for the purchase of goods, works or services up to a value of K3 million; and
 - Contracting policies and procedures.
- 6.10.** The Central Supply and Tenders Board will be responsible for:
- Inviting tenders for the purchase of goods, works or services up to a value of K3 million where there is not a functional Provincial Supply and Tenders Board in the relevant Provinces;
 - Inviting tenders for the purchase of goods, works and services valued between K3 million and K10 million; and
 - Contracting policies and procedures.
- 6.11.** The National Project Implementation Committee chaired by the Chief Secretary will receive and provide ad hoc reporting on the implementation of the District Service Improvement Program to Cabinet and Parliament.

7. TRUST REQUIREMENTS/STRUCTURE

- 7.1.** The requirements of the trust are stipulated in the trust instrument establishing the District Service Improvement Program Trust Account.
- 7.2.** The Department of Finance is responsible for managing the trust funds in accordance with the requirements of the trust instrument.
- 7.3.** Trust monies cannot be transferred to Government entities operating accounts but must be accounted for against the trust or related subsidiary trusts established for the purposes of District Service Improvement Program.

8. BANK ACCOUNTS

- 8.1.** No bank account shall be opened to hold any appropriated Budget monies unless there is a trust instrument signed by the Minister for Finance that provides the authority for opening such an account.

- 8.2. The Department of Finance shall be responsible for maintaining the main bank account as authorized by the trust instrument signed by the Minister for Finance. Two signatories are required on all transaction from this account, and these signatories shall always be:

Mandatory Signing Officer;

- Secretary of Finance, and

Countersigning Officers;

- Director of the Office of Rural Development, or
- Secretary of the Department of Treasury.

- 8.3. Implementing Districts may maintain subsidiary bank accounts as authorized by the trust instrument signed by the Minister for Finance. The signatories to those subsidiary accounts shall always be:

Mandatory Signing Officer;

- District Treasurer for the relevant District, or
- Provincial Treasurer.

and Countersigning Officers;

- District Administrator for the relevant District, or
- Provincial Administrator.

- 8.4. The Trust Branch of the Accounting Frameworks and Standards Division of the Department of Finance has arranged for District subsidiary bank accounts to be opened with the Bank of South Pacific. Each District through Circular 1/2008 has been advised of their account details.

- 8.5. The banks have been instructed to only open accounts supported by a trust instrument signed by the Minister for Finance and on the written request of Department of Finance.

9. ADMINISTRATION FUNDS

- 9.1. As per NEC Decision NG 46/2007 up to 3.0% of the total appropriation (i.e. a maximum of K300,000 of K10million) shall be available per District for the purpose of financing the administrative cost directly related to the effective planning, procurement and implementation of the District Service Improvement Program. This allocation should be used **over the next 5 years**.

- 9.2. The administration funds will reduce the allocation made to each of the six District Service Improvement Programs; this reduction will be proportionately spread across the six Programs.

For example the Education, Health, Law and Justice and Water Supply allocations will reduce from K2,000,000 to K1,940,000 each respectively and the Agriculture and Transport allocations will reduce from K1,000,000 to K970,000 each respectively (see 3.2 for further detail).

- 9.3. This funding shall be remitted directly into each Districts subsidiary bank account for the above purpose.

10. SCREENING PROCESS FOR THE APPROVAL OF PROJECTS

- 10.1. Project Identification and Formulation – the documents likely to be of most assistance to Districts in determining the sort of projects and the sort of spending intended under the Supplementary Budget funding are:

- the Supplementary Budget documentation released by the Government at the time the funding was provided;
- the trust instrument for the District Service Improvement Program trust account; and
- the list of standard project proposals.

- 10.2. Based on these documents, Districts proposing projects to be funded from the District Service Improvement Program shall provide a prioritized list of all projects/programs outlining the scope of work that is required by the individual proponents. This list should also be accompanied by copies of detailed project proposals. Refer **Attachment 3** for details of the Component and Project Scope.

- 10.3. All Districts should submit project proposals using the Project Formulation Document (PFD) to the JDP&BPC for review and endorsement. A template of the PFD is provided at **Attachment 4**.

- 10.4. Appraisal and Approval - a prioritized list of all projects together with completed PFDs (or full PDDs for complex and major projects/programs) are to be submitted to either the Provincial Project Evaluation Team or the Office of Rural Development (depending on project value) for appraisal and approval using standard project appraisal criteria as well as for checking for consistency with priorities of the GoPNG's Medium Term Development Strategy. All proposals will be checked against set criteria such as:

- project appraisal criteria (included as **Attachment 5**),
- work plan (included as **Attachment 6**),
- cash flows (included as **Attachment 7**),

- scope of individual project/program, and
- scope of District Service Improvement Program budget (included as **Attachment 3**).

11. STANDARD PROJECT DESIGNS

- 11.1.** To assist Districts in developing project proposals and as a way of fast tracking the approval process a list of standard project designs will be developed by the Department of Works in consultation with Districts, National Government Agencies and Development Partners.
- 11.2.** Projects selected from the standard designs list will be subject to streamlined review and consideration compared to projects designed and scoped by the District provided they fall within a reasonable cost range.

12. PROCUREMENT PROCESSES

- 12.1.** The GoPNG procurement policies and procedures are outlined in the Finance Instruction 1/2008 for the Implementing District to follow when proposing and implementing projects.
- 12.2.** For procurements less than K5,000 three verbal quotations are required.
- 12.3.** For procurements between K5,001 and K300,000 three written quotations are required.

In addition for minor procurement (between K50,000 – K300,000) a Minor Works Contract is required (Refer **Attachment 8**).

- 12.4.** For major procurement (above K300,000), Section 47 B of the *Public Finances and Management Act, 1995* requires an Authority to Pre-Commit (APC) expenditure to be approved by the Department of Finance's APC Committee and signed by the Secretary for Finance. This approval must be obtained before entering into any tender or contractual arrangements. The relevant Supply & Tenders Board is to affix its stamp and have the Tender or Certificate of Inexpediency number in the space allocated.
- 12.5.** Failure to obtain a properly approved and authorized APC will render any contract entered into null and void (Section 47 C of the *Public Finances (Management) Act, 1995*). Consequently, funds will not be released from the trusts even when a contract has been entered into.
- 12.6.** The only people authorized to execute a contract with a value of more than K300,000 for and on behalf of the State are the relevant Chairman from a Supply

and Tenders Board or if the amount exceeds K10 million the Governor General will execute such (refer *Public Finances (Management) Act, 1995* Sections 39, 39A & 39B).

- 12.7. Section 40 of the *Public Finances (Management) Act, 1995* requires that tenders shall be publicly called where the estimated cost is greater than K300, 000. This is further supported by Section 59.
- 12.8. The only exception to the requirement for public tendering is where a Certificate of Inexpediency (COI) is issued. A COI must be approved by a relevant Supply and Tenders Board. A COI cannot be used to avoid the tender process. The grounds under which a COI may be issued include Natural Disasters, Defense Emergency, Health Emergency and Civil Unrest (detailed in the Financial Management Manual, Part 13, Division 4). The issuing of a COI does not preclude the agency from the requirement to demonstrate value for money.

13. RELEASE OF FUNDS FROM THE MAIN ACCOUNT TO SUBSIDIARY ACCOUNTS

- 13.1. Funds will only be released from the main trust once all the clearances and approvals have been met and following an independent screening of project proposals by either the Provincial Project Evaluation Team or the Office of Rural Development.
- 13.2. All claims for processing of transfers from the main account to subsidiary accounts must be appropriately certified by the *Public Finances (Management) Act, 1995* Section 32 (1) and Section 32 (4) delegates accompanied with relevant supporting documents.
- 13.3. Funds will only be released from the main account according to cash flow needs for the operation of the project. Normally the cash flow requirements will have been specified in a project plan submitted when approval for the project is sought. These cash flows should also be reflected against milestones specified in contracts.
- 13.4. Districts (and the relevant Province) will be advised of the timing and value of funds transferred to the subsidiary account each time a transfer is made.
- 13.5. Funds to particular Districts may be withheld if the District fails to report adequately on the implementation, progress, and completion of projects. This includes full financial reporting, including acquittal of funds and reconciliations. The Office of Rural Development or the relevant Provincial Administrator should advise the Secretary for Finance immediately of reporting breaches in order to invoke this clause.
- 13.6. Too much Government spending can place pressure on inflation and interest rates, which can result in the cost of goods and services increasing.

To **reduce inflationary pressure** a maximum of K250,000,000 can be released from the main trust bank account into subsidiary trust bank accounts in any one year. Once this limit is reached, projects will be deferred to the start of the next financial year.

14. RELEASE OF FUNDS FROM THE SUBSIDIARY ACCOUNT

- 14.1.** All claims for processing payments from the subsidiary account to suppliers must be appropriately certified by the *Public Finance Management Act, 1995* Section 32 (1) (the Authorise Requisitioning Officer) and Section 32 (4) (the Financial Delegate) delegates accompanied with relevant supporting documents.
- 14.2.** The Section 32 (1) officers for the subsidiary accounts are as follows:
- Projects less than K50,000 – District Administrator; or
 - Projects between K50,000 and K3,000,000 – Provincial Administrator.
- 14.3.** The Section 32 (4) officers for the subsidiary accounts are as follows:
- Projects less than K50,000 – District Treasurer; or
 - Projects between K50,000 and K3,000,000 – Provincial Treasurer.
- 14.4.** For projects with a value greater than K3,000,000 certifying officers are as follows:
- Section 32 (1) for projects greater than K3,000,000 – Director, Office of Rural Development; and
 - Section 32 (4) for projects greater than K3,000,000 – Secretary, Department of Finance.

15. USE OF PGAS AND ACCOUNTING TREATMENT

- 15.1.** The Trust Instrument for the District Service Improvement Program Trust Account requires the use of the Papua New Guinea Government Accounting (PGAS) system. To provide proper accounting and accountability, ILPOCs and cheque payments shall only be generated through the PGAS system. Any variations to this will require amendment to the trust instrument by the Minister for Finance. This requirement applies to all accounts i.e. both main accounts and subsidiary accounts. This means that **no manual cheque processing** is permitted for any payments using District Service Improvement Program funds. The Trust Branch of the Department of Finance can assist District Treasuries with the logistics of obtaining specially printed cheque leaves to be used through the PGAS system or a replacement system for making payments.

15.2. Each District will be required to set up the following Trust Codes in PGAS:

Trust Type	Trust Code	Trust Description
3/5	600	DSIP Cash Book
3/5	601	DSIP Administration Program Fund
3/5	602	DSIP Education Program Fund
3/5	603	DSIP Health Program Fund
3/5	604	DSIP Law and Justice Program Fund
3/5	605	DSIP Water Supply Program Fund
3/5	606	DSIP Agriculture Program Fund
3/5	607	DSIP Transport Program Fund

15.3. One Cash Book (Trust Code 600) will be maintained to enable completion of bank reconciliations. Seven Fund Codes (Trust Codes 601-607) have been set up to enable the management of fund allocations within each program. Refer **Attachment 9** for further details on the accounting treatment.

15.4. Assistance in establishing the correct codes within the PGAS chart of accounts will be provided by the Department of Finance. Modification of these codes, or the creation of new codes, is prohibited as this will directly affect the integrity of the accounting for the trusts within the Government's official ledgers when the data is uploaded from the PGAS system into the Treasury Management System (TMS).

15.5. Each District will be required to forward a copy of their PGAS Backup CD along with the bank reconciliation and trust reports each month to the Trust Accounting Branch, Accounting Frameworks and Standards Division within the Department of Finance.

15.6. Districts that do not operate PGAS will be required to process ILPOCs and cheque payments through the relevant Provincial Treasury PGAS system.

16. REPORTING & MONITORING

16.1. All District Administrators shall provide quarterly management reports on the physical and financial status of the District Service Improvement Program projects to the JDP&BPC and the Office of Rural Development. In the event of non-compliance with reporting requirements clause 11.5 will be invoked withholding further release of funding until such time as reporting becomes compliant.

16.2. Office of Rural Development to provide quarterly reports on the physical and financial status of the District Service Improvement Program to:

- The National Project Implementation Committee;
- Department of Finance;

- Department of Treasury to enable the completion of Fiscal Responsibility requirements including the Final Budget Outcomes and the Mid Year Economic and Fiscal Outlook Report; and
 - Department of National Planning and Monitoring to enable quarterly reporting on the Development Budget.
- 16.3.** District Administrators shall maintain proper accounts and records of all financial transactions and implementation records under Section 102 of the Organic Law and the *Public Finances (Management) Act 1995*.
- 16.4.** All Districts shall comply with the Statutory Reporting requirements as set out in Section 19 (3) & (4) of the *Public Finances (Management) Act 1995*. They are also set out in the individual trust instruments for the District Service Improvement Program. They include requirements for:
- monthly bank reconciliation - Section 19 (4) (c) of the *Public Finances (Management) Act, 1995* requires bank reconciliations to be sent to the First Assistant Secretary, Accounting Frameworks and Standards Division of the Department of Finance,
 - annual financial statements - Section 19 (4) (d) of the *Public Finances (Management) Act, 1995* requires the annual accounts to be submitted to the First Assistant Secretary, Accounting Frameworks and Standards Division of the Department of Finance, and
 - annual budget estimates - Section 19 (3) of the *Public Finances (Management) Act, 1995* requires an annual estimates of the receipts and payments to be sent in the prescribed form to the First Assistant Secretary, Accounting Frameworks and Standards Division of the Department of Finance in the prescribed form is detailed in a Budget Circular issued in relation to Budget submissions in each year.

17. CONTACTS

- 17.1.** Should you require further information the following officers should be contacted:
- **Office of Rural Development –**
 - Project Management Unit covering submission of plans and proposals and reporting on projects.
 - **Department of Works –**
 - First Assistant Secretary – Policy and Planning Coordination and Donor Programs (Phone – 325 1253)

- **Department of National Planning and Monitoring –**
 - Director – Provincial and District Development Coordination (Phone – 328 8318)
- **Department of Treasury –**
 - Budget Issues**
 - First Assistant Secretary – Budgets Division (Phone – 312 8736)
- **Department of Finance –**
 - Trust Issues**
 - First Assistant Secretary Accounting Frameworks and Standards Division (Phone – 328 8605); or
 - Assistant Secretary Trust Accounting (Phone – 328 8602).
 - APC Issues**
 - First Assistant Secretary Cash Management and Expenditure Control (Phone – 328 8201); or
 - Assistant Secretary Expenditure Control (Phone – 328 8205).
- **Provincial Supply and Tenders Board / Central Supply and Tenders Board –**
 - Board Secretariat covering tendering and contracting policies and procedures.

GABRIEL YER
Secretary