



DEPARTMENT OF FINANCE
Office of the Secretary

FINANCE INSTRUCTION

1A/2013

14 JUNE 2013

**SUBJECT: FINANCE INSTRUCTION FOR THE IMPLEMENTATION OF
THE PROVINCIAL SERVICE IMPROVEMENT PROGRAM
(PSIP), DISTRICT SERVICE IMPROVEMENT PROGRAM
(DSIP) AND LOCAL LEVEL GOVERNMENT SERVICE
IMPROVEMENT PROGRAM (LLGSIP)**

1.0 INTRODUCTION

1.1 Authority

This Finance Instruction (hereafter, FI), is issued under Section 117 of the *Public Finances (Management) Act, as amended*.

1.2 Legality & Enforcement

Non-compliance with this and other FIs issued under the *Public Finances (management) Act*, will invoke appropriate sanctions and/or penalties prescribed under the Act and/or under other relevant laws.

1.3 Precedence

This Instruction amends and consequently supersedes Finance Instruction 01/2013 issued on the 01st January 2013.

2.0 PURPOSE

2.1 Regulation & Funds Usage

The Instruction and related guidelines are to ensure control and effective usage of the appropriated funds for the implementation of Provincial, District, and the Local-level Governments' development programs under the PSIP, DSIP, and the LLGSIP respectively.

3.0 BACKGROUND

3.1 NEC Decision NG 102/2012

The above Decision made on 30th October, 2012 directed for Service Improvement Programs and funding on sectoral basis. The Key Sectors being:

- Infrastructure
- Health
- Education
- Law and Justice
- Economic & Agriculture
- Administration

3.2 Budgetary Funding & Proportions

The proportions breaking breakdown DSIP, PSIP and LLGSIP budgetary allocations on the sectoral basis are as follows:

30%	Infrastructure
20%	Health
20%	Education
10%	Law and Justice
10%	Economic & Agriculture
10%	Administration

3.3 Further Breakdown of Administration Allocation

The 10% stipulated for **Administration** is further broken down as follows:

3%	General Administration (support to JPP&BPC/JDP&BPC and Project Management Teams (PMTs)
3%	Electoral (MP) Office Operational support
4%	Project Mobilisation costs

3.4 Adjustment of Appropriation as between Services

Where there is insufficient appropriation to meet expenditure incurred for a particular service/sector, the Minister may direct the re-allocation of any unexpended appropriation provided that –

- (a) The total of re – allocation shall not exceeds that sum specified for the purpose in an Act of the Parliament; and
- (b) The re –allocation is within the budget for general public services or the development budget and is not partly within the budget for general public services and partly within the development budget as per Section 24 of the *Public Finances (Management) Act*.

Funds for PSIP, DSIP and LLGSIP may be moved from one priority sector to another except for Administration component, provided that following conditions are met:

- There must be JPP&JDP&BPC/LLG Council approval in line with 5 Year Development Plan;
- This/these must be justified in a letter to the respective relevant authorities;
- Relevant authorities assesses and may/or may not approve the submission in consultation with DIRD and DoF Secretaries;
- The respective relevant authorities must approve the movement of funds as shown below:

- 10% Provincial Administrator;
- Between 10% to 50% Secretary National Planning; and
- Above 50% NEC.

3.5 Local-level Government SIP

LLGs are allocated K500, 000 each under Service Improvement Program (SIP) for village and Ward Developments. The breakdowns shall parallel the PSIP format and the Key Sectoral areas and programs as in **paragraph 3.2 above** for: Infrastructure, Health, Education, Economic development (agriculture business-like activities), Improved Law and Order and Administration.

3.6 Local-level Budgets & Expenditure

Being the first time that LLGs have prominence in funding and implementation, their expenditure must be strictly budget-driven and realistic within the Sectoral Guidelines and Policy Priority Areas issued by the Government.

4.0 BANK ACCOUNTS

4.1 Provincial Treasury Operating Account.

The existing PTOA will hold Provincial Service Improvement Program grants and make expenditure payments.

4.2 District Treasury Operating Account.

The existing DTOA will hold District Service Improvement Program grants and make expenditure payments.

4.3 Local – level Government Operating Account.

The existing LLGOA will hold Local – level Government Service Improvement Program grants and make expenditure payments.

5.0 NEW PGAS DATABASE FOR SERVICE IMPROVEMENT PROGRAM

5.1 The PGAS Database: A separate new database must be opened in PGAS to account for national government grants for respective service improvement programs. System administrator will be required to create a chart of accounts for the new database. The Attachment forms part of this Finance Instruction. If system administrators require guidance on creating this new database, they must contact the PGAS section in Information Technology and Communication Division.

5.2 By issuance of this Finance Instruction all DSIP Trust Accounts are to be closed as they are Budget Funded Trust Accounts that are fund directed via appropriation in either the Budget or Supplementary Budget.

- 5.3 A separate Finance Circular Instruction will be issued on the closing down of DSIP Trust Accounts and the treatment of former year's unspent grants that are currently being held in the Trust Accounts.

6.0 PROGRAM IMPLEMENTATION PROCESS

6.1 Project Identification & Selection

PSIP projects will be identified, selected and approved by the JPP&BPC with the Governor as Chairman/Chairperson in a manner consistent with the respective Five Year Rolling Development Plans of the province and the Sectoral Key Priority areas identified by the National Government.

- 6.2 DSIP projects will similarly be identified, selected and approved by the JDP&BPC with the open Member of Parliament as Chairman/Chairperson. The selection must also be consistent with the existing Five Years Rolling Development plan for the District and the Sectoral Key Priority areas stipulated by the National Government.

6.3 PSIP Projects & Plan

The selected project must be designed, documented and scoped, in consultation with Technical Teams (DIRD Field Officers, Provincial Works Managers and other Sector Managers.

6.4 Information on Projects to DIRD

Provinces and Districts through the respective Joint Planning and Budget Priorities Committee (JPP&BPC or JDP&BPC) as is applicable, are to submit lists of their prioritised Provincial and District projects together with duly completed PFDs to the Department of Implementation and Rural Development (DIRD) to assist the Department with confirmation of consistency with policy, planning the provision of oversights and monitoring implementation.

6.5 Project Budgets

The project budgets shall be derived from the PSIP, DSIP and LLGSIP (Project Grants) as appropriated. Relocation of PSIP and DSIP funds to other projects shall not be permitted unless authorised by the Department for National Planning upon recommendation by DIRD upon an application to that effect.

7.0 INCREASE IN THRESHOLD

- 7.1 In accordance with Government decision, the Public Finances (Management) Act (Amended) Act 2013, increase threshold for Provincial Supply Tenders Boards procurement from K3,000,000 to K5,000,000 and Authority to Pre – Commit Major procurement from K300,000 to K500,000.

- 7.2 The Amendments by the National Parliament made during the Parliament sitting in January 2013 are:

- (a) **Section 39B; (1) (a) and (b);** Requirement for Provincial Supply and Tenders Boards for proposed expenditure of K5,000,000 and above.
- (b) **Section 47B (1) (a) and (b);** Requirement for Authority to Pre – Commit Expenditure for proposed expenditure of K500,000 and above.
- (c) **Section 47C (2) (a) and (b);** Certain Contracts are Null and Void for amounts of K500,000.00 and above without APC.
- (d) **Section 61 (2) (a);** Approval Required for Certain Contracts by Public Bodies for value in excess of K500,000.

8.0 PROCUREMENT

8.1 Existing Procedures to Apply

The existing procurement procedures and public tendering requirements shall apply to all PSIP, DSIP and LLGSIP projects after the necessary selection by the JPP&BPC or JDP&BPC whichever is applicable.

8.2 Minor Procurement Arrangements

Minor procurement, i.e., procurement below K5, 000 shall be supported by three verbal quotations but the particulars must be noted in a Register of Quotations to ensure that quotations have actually been obtained. The particulars shall include date, time, name of suppliers and name of the quote giver and receiver.

Three quotations are required in writing for expenditures or purchases from K5001 and below K500, 000.

8.3 Major Procurement

All purchases above K500, 000 shall require written quotations from suppliers upon an invitation to bid under open tenders as per **Section 40** of the *Public Finances (Management) Act* either through the Provincial Supply and Tenders Board (PSTB) or the Central Supply and Tenders Board (CSTB) subject to the limit of financial authority of the board. For consideration of such tenders, submissions will need to be supported by duly approved Authority to Pre-Commit related (APCs).

Where the PSTB or the CSTB determines that the invitation of Tender is impractical, it may issue a Certificate of Inexpediency (C of I) to dispense with the requirement for open tender.

8.4 The Requirement for APC

Failure to obtain a duly authorised and approved APC where one is required will negate the evaluation of the tender by the relevant Supply and Tenders Board. A contract purportedly entered into without the necessary APC signed

by the Provincial Administrator is null and void for the intended purpose.
(Section 47C of the *Public Finances (Management) Act*).

8.5 Waivers and Certificate of Inexpedencies

The Minister for Finance may, upon application to the effect, waive public tender requirement (not procurement procedures) for projects and/or contracts not exceeding K500, 000 under Section 40(3) (c) of the Act. The applicable circumstances must be noted accordingly in the application for the ministerial waiver, the Register and File.

A supply and tenders Board may, where it considers it inexpedient upon an application to the effect, issue a Certificate of Inexpediency, thus negating public tendering. This provision may however be cautiously applied and often only in cases of natural calamities, emergency and where an "only supplier" is concerned.

9.0 TECHNICAL EVALUATION FOR AWARD OF CONTRACTS

9.1 Technical Evaluation Committee

There shall be a Technical Evaluation Committee (TEC) for each Province and District comprising: A representative from Provincial Works Unit, the District Administrator and Provincial Planner to evaluate quotations or tender bids and recommend as follows:

TEC Recommendations

- (i) All recommendations from the TEC for quotations below K500, 000 to the Joint District Planning and Budget Priorities Committee (JDP & BPC) for evaluation, selection and award of contract.
- (ii) All recommendations from the TEC for tender bids for projects of and over K500, 000 to the PSTB through the Administrator for selection and award of contract.
- (iii) The PSTB shall refer all intended contracts beyond its financial delegation of K5m to the CSTB for award and execution.
- (iv) In any situation of doubt, the Provincial or District Treasurer is to advise on the requirements of the *Public Finances (Management) Act*.

9.2 Standard Contract

A standard contract prepared on behalf of the State shall be signed between the Chairman of the PSTB/CSTB on behalf of Government/State and the Contractor as is appropriate.

9.3 Lodgement of Project and Contract Documents with National Planning

A copy of the signed contract (including delivery schedules and the billing or claims schedule) shall be furnished by the Provincial or District Administrator

where appropriate, to the Department of National Planning and Monitoring, within one (1) week of the signing of the agreement.

10.0 RELEASE OF FUNDS

10.1 Quarterly Warrants

Total PSIP, DSIP and LLGSIP funding shall be controlled centrally through Warrant Authorities based on cash-flows and availability of cash-funds by Treasury and Finance Department.

Related cash disbursements shall be based on Quarterly Warrants and/or in accordance with Government directions on the matter.

10.2 Recording Warrants Received

Information on released PSIP, DSIP and LLGSIP funds shall be kept by the relevant Finance Office (Treasury) in the Province or District under the different components/projects of the program as depicted, reflected or displayed by the allocations and Chart of Accounts in the PGAS databases.

10.3 CFCs and Delegations

The Provincial and/or District Administrator are responsible for the distribution of funds through CFCs, and for the related administration, accounting and reporting on the funds as distributed to projects under implementation.

11.0 SECTION 32 OFFICERS

- 11.1 All claims for processing payment from Services Improvement Program (SIP) must be appropriately certified by *Public Finances (Management) Act 1995* Section 31(1) (the Authorised Requisitioning Officer) and Section 32 (4) (the Financial Delegate) delegates accompanied with relevant supporting documents.

The Section 32 (1) officers for the operating accounts are as follows:

- Projects less than K50,000 – Deputy Administrator; or
- Projects between K50,000 and K5,000,000 – Provincial Administrator.

The Section 32 (4) officers for the operating accounts are as follows:

- Projects less than K50,000 – District Treasurer; or
- Projects between K50,000 and K5,000,000 – Provincial Treasurer.

For projects with a value greater than K5,000,000 certifying officers are as follows:

- Section 32 (1) for projects greater than K5,000,000 – Secretary, Department of Implementation and Rural Development; and
- Section 32 (4) for projects greater than K5,000,000 – Secretary, Department of Finance.

12.0 PROCEDURE FOR CLAIM AND PAYMENT

12.1 Payments Generally

All payments out of the accounts holding PSIP, DSIP and LLGSIP funds shall comply with the issued Guidelines; this Finance Instruction and other requirements of the *Public Finances (Management) Act* where applicable.

12.2 Acceptance of Claims

Claims shall be accepted only upon certification by the Provincial Works Unit that the deliverables in question have been made and received as per the terms and conditions of contract and schedules of payments/billings as provided in the Service or Supply Contract. Under no circumstances should forward payment be entertained or made.

12.3 Verification and Examination

All claims by Contractors for amounts between K5, 000 and K500, 000 submitted for payment shall be examined, verified and certified by the project manager in the Province or District and endorsed or approved for payment by the responsible Provincial or District Administrator as the Responsible Section 32 Officer.

12.4 PGAS Processing and Recording

The Provincial or District Treasurer shall make all authorised payments to contractors and furnish payment reports to the JPP&BPC or JDP&BPC whichever is applicable through the Provincial or District Administrator using the payment schedules (DIRD Cheque Release Form).

12.5 Keeping of Accounts

The District Treasurer is to maintain proper accounts and records of financial transactions and assets acquired from DSIP, PSIP and LLGSIP funds in accordance with the *Public Finances (Management) Act* and the Organic Law on Provincial and Local Level Governments using the appropriate PGAS system.

12.6 Bank Reconciliations & Cheque Usage Reports

Cheque Usage Reports are to be provided regularly to Banks to support the cheque clearance processes. Provincial and District Treasurers will prepare Bank Reconciliations monthly and forward certified copies of such reconciliations and copies of the relevant bank balances to the Department of Finance within 14 working days after each month end.

No manual cheque books are to be used in the disbursements of funds and/or payments.

12.7 Asset Register

In addition to keeping records and accounts, the Provincial or District Administrators shall make sure that the Treasuries or Finance Accounting Offices keep up to date Asset Registers of fixed assets acquired through PSIP, DSIP and LLGSIP development funds.

13.0 PROJECT AND CONTRACT MANAGEMENT

13.1 Project & Contract Management

The Provincial and/or District Administrator shall manage the contract on behalf of the JPP&BPC and JDP&BPC. Where necessary he/she, shall seek technical advice on contract management from the Project Management Team or Technical Evaluation Committee.

13.2 Project Implementation Monitoring

Contract Management shall be understood to be synonymous with Project Management in relation to the Responsibility of the Provincial and/or District Administrator as Chief Accountable Officers in the Provinces and Districts.

14.0 FINANCIAL AND MANAGEMENT REPORTS

14.1 Reports by Administrators

As the Officers Responsible for project management and project monitoring, the Provincial and/or District Administrators are to ensure compliance with reporting requirements thus, they shall furnish or provide quarterly management reports on the physical and financial status of the PSIP, DSIP and LLGSIP projects under their respective responsibilities to the JPP&BPC or the JDP&BPC and the DIRD.

14.2 Failure to Report

In the event of non-compliance with the stated procurement, accounting and reporting requirements, further release of funds shall be withheld until compliance requirements are fully met.

14.3 Monitoring Reports & Distribution by DIRD

The DIRD and the Department of Finance shall provide Quarterly Reports on the physical and financial status of the respective SIPs to:

- (a) The National Implementation Committee through the Office of the Chief Secretary;
- (b) The Department of National Planning and Monitoring to enable updates on PIPs and the Development Budget;
- (c) The Department of Treasury to enable the compilation of Fiscal responsibility requirement including information on budget outcomes and Economic and Fiscal Outlooks;
- (d) Department of Provincial & Local Government Affairs for updates of NEFC and PLLSMA information.

15.0 CHART OF ACCOUNTS

15.1 Standard Charts

A comprehensive Chart of Accounts reflecting the Service Improvement Program activities (inputs and outputs) forming part of this FI, is attached for reference and adoption into the PGAS Accounting System.

15.2 Single line Warrants

Where Treasury releases funds under single line item (143) to Provinces, Districts and LLGs, the Provincial and/or District Treasurers must dissect these releases to reflect, budgets, accounts, ownership, authority and controls over the funds in accordance with the provided PGAS-based chart of accounts.

16.0 AUDITS AND INSPECTIONS

16.1 Audits & Progress Inspections

The DIRD, Treasury Department, Provincial and Local Government Affairs and Finance have Audit Cells that will be routinely deployed to conduct project audits and/or inspections including evaluations of implementation progress as determined by DIRD in consultation with Program Managers, Provincial and District Administrators.

17.0 TREATMENT OF UNSPENT FUNDS

17.1 Committed Funds at Year-end

Subject to justification and approval by DIRD in consultation with Finance Department, committed and earmarked project not yet used may be rolled over into accounts designated for the purpose for ensuing period for uninterrupted completion of the related projects. Such rollovers shall be only for one succeeding fiscal/financial year.

17.2 Uncommitted Funds at Year-end

Uncommitted funds not earmarked or unlikely to be earmarked to projects or activities, are thus surpluses, will be forfeited to the Consolidated Revenue Fund. It is also important to note that these funds will not be diverted to other projects. This position is to ensure the integrity of planning, budgeting, responsible usage of funds and related accounting and reports after the Appropriation lapses and the Financial Year ends.

18.0 PUNITIVE MEASURES FOR NON-COMPLIANCE

19.1 Breach of Guidelines and FI

Any breach of the issued Administrative Guidelines and this Finance Instruction by an Accountable Officer, is a breach punishable under the *Public*

18.2 Breaches by Leaders and Chief Accountable Officers

Non-compliance by Leaders and Chief Accountable Officers shall be deemed breaches under the Leadership Code Breaches attracting remedies under S.27 and S.28 of the *National Constitution* and the *Criminal Code* where applicable

18.3 Breaches of Contract by Contractors

Breaches by Contractors of contracts with the State in implementing PSIP, DSIP, LLGSIP and any other such contracts will face contract termination and/or damage recovery suits.

18.4 Restitution

Any officer, leader or contractor found and proven to have unduly acquired assets through diversion of public resources and at the expense of the State, shall be pursued in a court of law for State Restitution.

19.0 EFFECTIVE DATE OF THIS FI

This Finance Instruction is effective as of the date of signing by the Secretary.

20.0 HELP DESK

Should you require further information the following officers should be contacted:

(a) Department of Implementation and Rural Development -

- Assistant Director – Policy & Strategic Intervention Division covering submission of plans and proposals and reporting on projects (Phone: 323 2896).
- Assistant Director- District Development Service Division

(b) Department of Works -

- First Assistant Secretary - Policy and Planning Coordination and Donor Programs (Phone - 325 1253)

(c) Department of National Planning and Monitoring -

- Director - Provincial and District Development Coordination (Phone - 328 8318)

(d) Department of Treasury -Budget Issues

- First Assistant Secretary - Budgets Division
(Phone - 312 8736)

(e) Department of Finance

- First Assistant Secretary Accounting Frameworks and Standards Division (Phone - 328 8605); or

(f) APC Issues

- First Assistant Secretary Cash Management and Expenditure Control (Phone - 328 8201); or
- Assistant Secretary Expenditure Control (Phone - 328 8205).

(g) Provincial Supply and Tenders Board / Central Supply and Tenders Board

- Board Secretariat covering tendering and contracting policies and procedures.



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Acting Secretary for Finance

PSIP, DSIP & LLGSIP CHART OF ACCOUNTS

Provinces, Districts and Local Level Governments are currently using PGAS for accounting records and financial reporting.

The PGAS-based Chart of Accounts has been structured thus:

DIV	DIV	DIV	
Indicator	District	District	LLG
Grant No.	Function	Program	Activity/Project
Item	Item	Item	Item

Legend:

Div = Division/Province Indicator; **3 digits** e.g. "271" Western Province
Indicator = "1" for Recurrent; "2" for Development/project; "9" for **Unspent Development/Rollover Grants**
District = **Electorate/District**; **2 digits** e.g. "01" for **District one**
LLG = Local-level Government of the given District; **1 digit**

All Grants under the Organic Law on Provincial and Local-level Governments to Provincial and Local-level Governments had numbers to identify them.

Grant Type No. = 1digit

7. Special Support Grant (SSG & Mining Agreement Grant)
8. **Service Improvement Program Grant (PSIP, DSIP, LLGSIP & DSG)**
9. **Unspent Grants**

As Program (PSIP/DSIP) funding would be: 7 and 8. For the purpose of this Instruction and Guidelines, "8" is recommended.

Function = 1 digit

1. Administration
2. Health
3. Economics
4. Education
5. Law and Order
6. Infrastructure
7. Community Services
8. Reserved
9. Others

Security, and functional indicators accommodate the policy focus area of: Health, Education, Infrastructure, and Economic Development including Agriculture and Law and Order.

Program = 1 digit

Activity/Project = 1 digit

Item = Expenditure Items (3/4 digits)

3 digits for Government funding and 4 digits for donor funded.

***N.B:** PSIP at the provincial level and LLG/SIP at the lower level must follow a parallel procedure and arrangement with DSIP.*

Legend Sample (PSIP)

Vote number **271 – 2 100 – 8111 – 135** (Item)

	Codes	
Division	271	Western Province
Indicator	2	Development
Location	100	Provincial Head Quarter
Grant Type	8	PSIP Grant
Function	1	Administration
Program	1	Administration
Activity	1	General Administration

Legend Sample (DSIP)

Vote number **271 – 2010 – 8111 – 135** (Item)

	Codes	
Division	271	Western Province
Indicator	2	Development
Location	010	South Fly District
Grant Type	8	DSIP Grant
Function	1	Administration
Program	1	Administration
Activity	2	Electoral Office Administration

Legend Sample (LLGSIP)

Vote number **271 – 2011 – 8111 – 135** (item)

	Codes	
Division	271	Western Province
Indicator	2	Development
District	010	South Fly District
LLG	011	Kiwai LLG
Grant Type	8	LLGSIP Grant
Function	1	Administration
Program	1	Administration
Activity	3	Project Mobilization

2012 PSIP	EXPENDITURE VOTE NUMBER	
	271- 2100 – 88111 – 8660	
Unspent 2012 PSIP (if any)	271 – 2100 – 9111 – 96660	
Rolled over into 2013		
2013 Appropriation K30m	271 – 2100 – 8111 – 135	Admin General 3%
(K5x6 Districts)	271 – 2100 – 8112 – 135	Electoral Office 3%
	271 – 2100 – 8113 – 135	Mobil'ion 4%
		K3m Admin 10%
	271 – 2100 – 8220 – 225	K6m Health 20%
	271 – 2100 – 8330 – 225	K3m Economic 10%
	271 – 2100 – 8440 – 225	K6m Education 20%
	271 – 2100 – 8550 – 225	K3m Law & Justice 10%
	271 – 2100 – 8660 – 225	K9m Infrastructure 30%
Unspent 2013 PSIP (if any)	271 – 2100 – 9111 – 135	Admin General
Rollover into 2014	271 – 2100 – 9112 – 135	Electoral Office
	271- 2100 – 9113 – 135	Mobil' ion
		(Admin)
	271 – 2100 – 9220 – 225	Health
	271 – 2100 – 9330 – 225	Economic
	271 – 2100 – 9440 – 225	Education
	271- 2100 – 9550 – 225	Law & Justice
	271 – 2100 – 9660 – 225	Infrastructure

Example: South Fly **DSIP CODE**

271 – 2010 – 8111 – 135 Admin General
271 – 2010 – 8112 – 135 Electoral Office
271 – 2010 – 8113 – 135 Mobil'ion Admin

LLG/SIP CODE	271 – 2011 – 8111 –135 Admin General
	271 – 2011 – 8112 –135 Electoral Office
	271 – 2011 – 8113 –135 Mobil'ion Admin

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2013 PSIP, DSIP & LLG/SIP - REVENUE CODING.

Only the Division/Province, Location, Grant Type and Function Codes will be used to identify PSIP, DSIP and LLG/SIP Grants.

Example: PSIP

271100 – 81 Administration
82 Health
83 Economics
84 Education
85 Law & Justice
86 Infrastructure

DSIP

271010 - 81 Administration
82 Health

LLG/SIP

271011 - 81 Administration
82 Health