



**DEPARTMENT OF FINANCE**  
**Office of the Secretary**

**FINANCIAL INSTRUCTION**

**2-2013**

**SUBJECT: AMENDMENT TO THE PUBLIC FINANCES (MANAGEMENT) ACT:  
INCREASE IN THE KINA THRESHOLD FOR MAJOR PROCUREMENT**

**1. Purpose**

- 1.1. The purpose of this Financial Instruction is to communicate the amendment made to the *Public Finance (Management) Act* and to bring into force and practice, the requirements of the amendments made.
- 1.2. This Instruction is part of and is to be read in conjunction with the *Public Finances (Management) Act* as amended (see attached). Non-compliance with the requirements of this Financial Instruction tantamount to non-compliance with the *Public Finances (Management) Act* as amended and as usual, such non compliance will attract the penalties as are provided for under the *Act*.

**2. Background**

- 2.1. This Financial Instruction is issued under Section 117 of the Public Finance (Management) Act (PFMA), which empowers Secretary for Finance to issue instruction on matters relating to financial management practices for proper use of public funds and resources.
- 2.2. The National Parliament has passed the *Public Finances (Management) (Amendment) Act 2013* certified by the Speaker and the Clerk of Parliament on 15<sup>th</sup> April 2013.

### 3. The Amendment

3.1. The Amendments made by the National Parliament relates to:

#### 3.1.1. **PROVINCIAL SUPPLY AND TENDERS BOARDS (AMENDMENT OF SECTION 39B).**

Section 39B of the Principal Act is amended in Subsection (1)(b) by repealing "K3,000,000.00" and replacing it with "K5,000,000.00"

This now means all ***Provincial Supply and Tenders Board*** have a tender threshold limit increase from K3 million to K5 million. For contractual value above K5 million will be referred to the Central Supply and Tenders Board.

#### 3.1.2. **AUTHORITY TO PRE-COMMIT EXPENDITURE (AMENDMENT OF SECTION 47B).**

Section 47B of the Principal Act is amended in Subsection (1) (b) by repealing "K300,000.00" and replacing it with "K500,000.00".

3.2 The amendment to Section 39B relates specifically to the Provincial Supply and Tenders Board (PSTB). The major procurement limit for all Provincial Government has now increased from K3,000,000.00 to K5,000,000.00. All major procurement between the kina threshold K500,001 to K5,000,000 will be executed at the respective PSTB.

3.3 Section 47B, the Authority to Pre-Commit Expenditure requirement increased from K300,000 to K500,000.

3.1.3. **Section 47C (2) (a) and (b);** Certain Contracts are Null and Void for amounts of K500,000.00 and above without APC.

3.1.4. **Section 61 (2) (a);** Approval Required for Certain Contracts by public bodies for values in excess of K500,000.00

This amendment relates to all Government procurement requiring APC above K500,000 prior to going for tenders through Central Supply and Tenders Board.

#### 4. Existing Procurement Procedures

- 4.1. Purchase for less than K5,000, requires verbal quotation noted or recorded in the Register kept for the purpose. Procurement for K5001 and less than K100,000 require three written quotations. For amounts more than K100,001, Authority to Pre-Commit Expenditure is required and tenders are to be called for.

Value	Process
Less than K5000	Verbal Quote (ILPOC)
More than K5001 up to K100,000	Three written quotes (ILPOC)
More than K100,001	APC or Section 61 Approval & Tenders

Procurement by Public Bodies for values over K100,000 or such amount as provided for in the constituent Act, require Section 61 approval prior to tendering. The above have *changed slightly* per the new amendments as outlined below.

#### 5. The New Arrangements for Procurement

- 5.1. For purchase less than K5000, the status quo remains. Purchases for amounts between K5001 and K500,000, three written quotations are required however, for purchases between K50,000 – K500,000 in addition to the written quotation, a **Minor Contract Agreement** executed by the Head of the procuring Agency is required.

- 5.2. For purchase over K500,001 public tender requirement apply (APC or Section 61 Approval whichever is applicable).

Value	Process
Less than K5000	Verbal Quotations (ILPOC)
More than K5001 – K500,000 Between K50,000 – K500,000	Three written quotations (ILPOC) A Minor Contract Agreement
More than K500,000	APC or Section 61 Approval & Tenders



## **6. Minor Contract Agreement (K50,000 – K500,000)**

- 6.1. Although the amounts between K50,000 – K500,000 are substantial, they entail no requirements for tenders, it is however a requirement of this Finance Instruction for a *Minor Contract* to be in place between the agents of the state and the suppliers of goods or services for purchase or procurement values falling within the range.
- 6.2. The Head of the Government Agency or Department undertaking the necessary procurement must ensure that a Minor Contract Agreement is in place and executed properly. This is to ensure the State gets what it needs and the supplier paid accordingly.
- 6.3. The requirement for ILPOC (Integrated Local Purchase Order and Claims form) and Authority to Pre-Commit (APC) is still mandatory and still applicable at all times. The amendment only relates to the increase in the threshold of the kina amount on major procurement.
- 6.4. A standard template for a Minor Contract Agreement, cleared by the State Solicitor and forming part of this Finance Instruction, is attached to be copied for use by agencies for purpose of minor contracts.
- 6.5. It is the responsibility of the Head of the Government Agency or Department to ensure that Minor Contracts entered into, are properly administered and discharged by and between the parties.

## **7. Scope and Effective Date**

- 7.1. This instruction supersedes and updates any previously issued instructions to the same effect and is to be included in updating the recently issued Financial Management Manual in order to maintain consistency with the *Public Finances (Management) Act* as amended.
- 7.2. The Instruction is valid and becomes effective on the date of Signature of the Secretary for Finance and enforceable.

## **8. Help Desk**

- 8.1. For information and queries of this Instruction, contact the following:

**Acting First Assistant Secretary**

Accounting Frameworks & Standards Division

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Accounting Frameworks Branch

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**STEVEN GIBSON, ML**

Secretary

Dated 20<sup>th</sup> of May 2013

Term (should include a start and end date)

Description of Services (full description of the goods/services/works for example: Two 4x4 dual cab utilities)

Type of Contract (tick appropriate box)

Services

☐

Goods

☐

Vehicle

☐

Works

☐

Contracted Parties (include contract details including addresses/fax/phone/authorised officer for both the supplier/contractor and the Government Agency)

Price (hourly rate/lump sum (including GST))

GST Registration Number (if not registered this must be detailed)

Business Registered Number

Insurances (Detail insurance coverage, copy of certificates to be sighted and attach to this order)..

Professional Indemnity (PI)

\* Public Liability (PL)

Product Liability

\* Mandatory for all works

Warranties (including agreed defects liability if applicable)

- Contractors must hold and maintain appropriate licenses for any work being undertaken.
- Fixed pricing. (The contract rates will remain fixed for the term of the Agreement)
- Variations in writing. (all changes to scope must be agreed in writing)
- All works/services to be carried in professional manner
- Contractors may be required to cooperate with other parties
- Payment terms are detailed in the Finance Management Manual

Agreed Milestones / Hold Points

For and on behalf of the Independent State of Papua New Guinea

Name (Print)

Signature:

(Section 32 Delegate) Position:

For and on behalf of Contractor

Name (Print):

Signature:

(Director) Position: