

**SECTION 1: GOVERNMENT FINANCIAL MANAGEMENT AND ACCOUNTING SYSTEM - AN OVERVIEW****1.1 The Legal Framework**

The Constitution of Papua New Guinea contains several provisions relating to the supervision and control of Public Finance. Section 211 (1) of the Constitution states that all moneys of or under the control of National Government shall be dealt with and properly accounted for in accordance with the law. The law that governs public finances is the *Public Finances (Management) Act*.

The *Public Finances (Management) Act* provides for the management of public finances. The Act also enables regulations to be made by the Head of State acting on the advice of the National Executive Council for better control and management of public monies and public properties.

Financial instructions dealing with procedures relating to receipts and payments of public moneys and Public properties are issued by the Departmental Head responsible for Financial Management under Section 117 of the *Public Finance (Management) Act*.

The raising and expenditure of finance by the National Government is subject to authorisation and control by the National Parliament and is regulated by an Act of Parliament (Section 209 of the Constitution).

Section 210 of the Constitution prescribes that the Parliament must authorise the imposition of tax, raising of loans or expenditure of public money only on recommendation of the Head of the State, acting on advice of the National Executive Council. The section further prescribes that the Parliament cannot change the purpose of any tax, loan or expenditure or increase or reallocate the amount in budget proposals.

The Constitution, the Organic Law, the Act, the Regulations and the Financial Instructions therefore constitute the legal framework for all level of Government's financial management system.

**1.2 FINANCIAL MANAGEMENT SYSTEM****1.2.1 The basic components of the Financial Management systems are:**

- Planning
- Budgeting
- Raising and spending of resources and accounting
- Control Procedures including internal and external audit

- (a) Planning is the process of determining priorities and developing the ways of achieving specific goals within the resources forecasted in accordance with an overall development strategy. The Local-level Government strategy is the Five-year rolling plan.
- (b) A budget is a resource plan in terms of money relating to a period and the Local-level Government budget takes the form of annual estimates.
- (c) Detailed procedures for raising of revenues are designed to comply with the requirements of the relevant taxation or in case of non-tax sources, to satisfy the self- financing needs of services provided in part or full. **(Refer to Section 4 of the manual).**

Expenditure of public monies must be in accordance with the tendering and procurement procedures and Financial Instructions issued from time to time by the Departmental Head responsible for Financial Management.

- (d) Control procedures include satisfactory accounting systems in operation. It also provides means for economic and financial appraisal of program operations to facilitate internal and external audit. The control system includes the review of the audited annual accounts for each level of government by the Parliamentary Committee on Public Accounts.

"Control is also exercised through audit and inspection by the Auditor-General as permitted by Section 214 of the National Constitution".

### **1.3 RESPONSIBILITY FOR FINANCIAL MANAGEMENT**

#### **1.3.1 The responsibility for financial management is specifically stated in Section 3 and 4 of the *Public Finances (Management) Act*.**

- The Minister for Finance is responsible for the supervision of finances of the State including finances of Provincial and Local-level Governments, formulation of annual budgets and overseeing their implementation. (Section **3 of the Act**).
- The Departmental Head responsible for Financial Management is responsible for the control and direction of all matters relating to the management of the financial affairs of the state, may require to submission of financial reports at specified intervals and may impose surcharge and penalties on the Accountable Officer who fails to submit reports. (Section **4 of the Act**).

#### **1.3.2 Local-level Government Financial Responsibility**

Local-level Governments are independent legal entities with authority for

managing their financial affairs. In recognising these fiscal responsibilities, Section 105A (6) of the Organic Law requires Local-level Governments to manage their financial affairs in accordance with provisions of the *Public Finances (Management) Act*.

Section 105A of the Organic Law makes Local-level Government responsible for preparing operational plans and financial budgets for each fiscal year.

## **1.4 FINANCIAL MANAGEMENT ORGANISATIONS**

### **1.4.1 District Treasury Establishments**

The Department responsible for Financial Management shall establish, develop and commission District Treasury Offices to provide accounting, financial management and support services to assist Local-level Governments in providing community services.

In order to meet the financial management and information needs of Local-level Governments, the Department will establish effective administrative and accounting systems using a combination of computerised processing tools and paper driven accounting systems to generate useful financial and management reports which will assist LLGs in decision making processes.

The administrative and accounting procedures have been purposefully designed to provide financial management and accounting support services for LLGs. The Secretary of the Department responsible for financial management shall determine the financial systems and procedures to be used. The introductions of any other systems are strictly prohibited.

### **1.4.2 Establishment of District Treasury**

A District Treasury is an accounting organisation established under Section 112 of the Organic Law on Provincial Governments and Local-level Governments to be located at the district area.

Making a District Treasury operational is the responsibility of the Secretary of the Department responsible for financial management. The Secretary may consult with the Provincial and District Administrators.

### **1.4.3 Functions and Roles of District Treasurers**

The District Treasurers' functions are to ensure that all financial transactions undertaken by the Local-level Governments out of public moneys are managed properly. Such moneys are to be released strictly in accordance with law and contribute to the effective delivery of services to the community.

Any funds dispersed by National and Provincial Governments should also be

accounted for at the District level.

In accordance with Government policy stance, District Treasurers from time to time may also oversight functions such as banking, postal, and other services.

#### **1.4.4 Professional Assistance to Local-level Government**

District Treasurers are to assist in the preparation of the budget estimates for the Local-level Governments. Such assistance is to provide Local-level Governments with sound and professional advice on budgetary processes.

In relation to approved budget programs, District Treasurers shall comply with the requirements of the Organic Law and the *Public Finances (Management) Act 1995*.

District Treasurers shall ensure that Local-level Governments exercise proper accountability and prudent financial management in maintaining adequate recording systems on all grants, internally raised revenue and expenditure statements. District Treasury will assist Local-level Governments in preparing bank reconciliations and compiling financial statements.

District Treasurers shall participate in the Joint District Planning and Budget Priorities Committee in an advisory capacity for their District.

### **1.5 FINANCIAL MANAGEMENT AND PROCEDURES**

#### **1.5.1 General Controls**

The accounts shall be maintained in accordance with the Generally Accepted Accounting Principles (GAAP).

The Local-level Government expenditure is limited to the funds appropriated by relevant Appropriation Acts. Accountable Officers under Section 6 of Public Finances (Management) Act are responsible for containing expenditure within the Warrant Authorities and Cash Fund Certificates issued to them. They are ultimately answerable for any over expenditure.

All appropriations lapse at the end of the financial year.

Detailed procedures for commitment of expenditure and payment of claims are laid down in Section 7 & 8 of this manual. All requisitions for goods and services have to be approved by the designated Section 32 officers.

Claims received from suppliers are first checked by an examiner, then certified by Certification Officer and authorised by Authorising Officer before making payments. Duties and responsibilities of Financial Delegates, Certification Officer and Accounting Officers are laid down in **Section 8** of this Financial Manual.

### **1.5.2 LLG Accounting Systems**

All Local-level Governments (LLGs) will use the administrative arrangements and accounting systems, described in this manual, for the purpose of recording, controlling and monitoring the collection, disbursement and reporting of public moneys.

### **1.5.3 District Treasury and Local-level Government - Bank Accounts**

Under the Organic Law, Local-level Governments are separate legal entities. Each Local-level Government will operate one bank account for controlling their grants and cash resources. The bank account called the District Treasury Operating Account will be used for National and Provincial Government Grants received such as District Support Grants, District Infrastructure Grants, ex-warrants CFCs, and any other funds for District services.

Internally raised revenue and Local-level Government Grants from the National Government are paid directly into the Local-level Government operating account. No local-level Government or District Treasury shall operate any other bank account except as stipulated.

### **1.5.4 Additional Bank Accounts**

If there is a requirement for additional bank accounts, the District Treasurer in consultation with the District Administrator and Local-level Government Council President must seek approval from the Secretary of the Department responsible for Financial Management prior to opening such accounts.