

# I. Introduction

## 1. Study Background

The 1997 financial crisis in Asia exposed structural weaknesses in the banking and corporate sectors of affected countries owing largely to poor governance, lack of transparency, and weak supervision and regulation.<sup>3</sup>

The Asian Development Bank (ADB) has been taking a number of initiatives to assist Developing Member Countries (DMCs) in overcoming these structural problems. The focus on improved governance includes enhancing the effectiveness of public administration and development management at the sector level and in national institutions in the DMCs. Where appropriate, institutional development of the local and provincial agencies and the private sector is also covered. A sound regulatory financial framework and its enforcement, capable institutions, skilled human resources, and effective monitoring and supervision are important prerequisites to an efficient financial structure.

Regional Technical Assistance (RETA) No. 5877 – *Strengthening Financial Management and Governance in Selected DMCs* – was approved by ADB for the purpose of carrying out initial studies to identify gaps and weaknesses in financial management and governance and to recommend courses of action to overcome these problems.

## 2. Objectives

ADB has demonstrated its stand on the importance of good governance, through effective financial management, for sustained economic development. This RETA involved a diagnostic review of the existing accounting and auditing support and standards available in the selected DMCs. After carrying out this diagnostic review, the study assessed the need for assistance to improve the current situation. Objectives were to:

- (i) assess the capability and capacity within each country to provide efficient and effective accounting and auditing support to meet

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<sup>3</sup> Zhuang, Juzhong, David Edwards, David Webb and Ma. Virginita Capulong. 2000. *Corporate Governance and Finance in East Asia: A Study of Indonesia, Republic of Korea, Malaysia, Philippines, and Thailand*. Asian Development Bank: Manila.

- international standards and best practices and address the issue of training and capacity enhancement
- (ii) determine the existing accounting and auditing standards of each country
  - (iii) assess the degree of deviation from International Accounting and Auditing Standards (IAAS) while identifying weaknesses and possible corrective options
  - (iv) discuss the fieldwork findings and introduce the concepts of the international standards through workshops
  - (v) develop reference materials for potential users of the IAAS, and
  - (vi) determine the level and type of assistance needed by each country in order to provide acceptable accounting and auditing support to the private and public sectors.

### **3. Scope**

The RETA involved an in-depth study of the key issues relating to accounting and auditing support in the selected DMCs, identified gaps and weaknesses that need to be addressed to improve accounting and auditing support, and developed assistance programs in collaboration with other donors to rectify the identified weaknesses. Papua New Guinea was one of seven countries that participated in the RETA.

### **4. Country Case Studies and Workshops**

The first part of the study examined the current accounting and auditing structure and systems adopted in Papua New Guinea. It also: (i) analyzed the political, institutional, and regulatory and legal framework on accounting and auditing practice and the level of enforcement of existing laws, rules, and regulations; (ii) identified gaps and weaknesses in accounting and auditing support available and deviations from international standards; and (iii) identified alternative options to remedy the identified weaknesses, with the objective of eventually doing away with these.

The second part of this study disseminated the findings of the country research through in-country workshops. Each workshop provided a cross-section of views on the findings of the research and established ways to move forward to improve financial management and governance in the country. After carrying out the assessment of accounting and auditing support in Papua New Guinea, the study

findings and recommendations were discussed at a workshop in Port Moresby on 20 September 2000, and at an international conference at ADB Headquarters in Manila from 16-18 October 2000. This report incorporates feedback from the Workshop and the Conference.

## 5. ADB Focus on Financial Governance in PNG

The main focus of ADB's operational strategies in Papua New Guinea is poverty reduction and public sector financial management reform. Good governance is a core part of these strategies. This RETA complements other ADB initiatives which will lead to improved financial management and governance.

## 6. Papua New Guinea

The island of New Guinea is divided into two countries: Irianjaya (Indonesia) to the west and Papua New Guinea to the east. Papua New Guinea consists of the mainland and numerous smaller islands, the largest of which are New Britain, New Ireland, North Solomons and Manus.

Much of the terrain is extremely rugged with high mountain ranges and steep valleys with fast flowing rivers. In contrast, along the coast there is an extensive system of marshes. The country has only a few major roads, and many towns and villages are accessible only by air, foot or boat. The capital city, Port Moresby, lies on the south coast.

Papua New Guinea is noted for its cultural and linguistic variety. Seven hundred languages are spoken. The main language is Melanesian pidgin, which is spoken widely throughout the country, and *hiri-motu*, which is spoken in some parts of the south coast. English is the language of education, administration, and commerce.

The following is a summary of statistical information for Papua New Guinea:

|                     |   |
|---------------------|---|
| Independence:       | 16 September 1975   |
| Government:         | constitutional, parliamentary democracy   |
| Parliament members: | 109 (20 provincial, 89 district)  |
| Provinces:          | 19 plus the National Capital District (NCD)   |
| Population:         | (1990) 3,671,954 – 52.7 percent males, 47.3 percent females; (1995 estimate) 4,186,236 based on a 2.3 percent growth rate |

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|---------------------------|--|
| Place of residence:       | 14.8 percent urban; 85.2 percent rural   |
| Population density:       | 8.1 people per square km   |
| Median age:               | 18 years   |
| Life expectancy:          | Females, 51 years; males, 49 years   |
| Land area:                | 462, 840 square km   |
| Highest point:            | Mt Wilhelm – 4509 m above sea level  |
| Forests:                  | 360,000 square km  |
| Rivers:                   | 10,940 km  |
| Longest river:            | Fly – 1,200 km   |
| Biggest lake:             | Lake Murray – 647 square km  |
| Coastline:                | (mainland and islands) 5,152 km  |
| Sea area:                 | 1,900,000 square km  |
| Deepest point:            | Solomon Sea – 8,581 m below sea level  |
| Reef area:                | (less than 30 m below sea level) 40,000 km <sup>2</sup>  |
| Islands:                  | more than 1,400  |
| Time zone:                | 10 hours ahead of Greenwich Mean Time<br>(London)  |
| Map location:             | latitude: equator to 14 degrees south (1,575<br>km)<br>longitude: 141 degrees to 160 degrees east<br>(2,100 km)      |
| Neighboring<br>countries: | north – Federated States of Micronesia; east –<br>Nauru; and Solomon Islands; south –<br>Australia; west – Indonesia |
| Currency                  | Kina (US\$0.3230)  |