

VI. Government Budgeting and Accounting

This chapter describes government budgeting and accounting arrangements. For the purposes of this report, government is defined as central and provincial government organizations. This chapter is structured as follows:

- 1 – Introduction
- 2 – Constitution of the Independent State of
- 3 – Public Finances Management Act
- 4 – Department of Finance and Treasury (DFT)
- 5 – Information Systems
- 6 – Budget Procedures
- 7 – The Public Accounts Committee
- 8 – Corruption Issues in the Public Service

1. Introduction

The accounting system embraces both national and sub-national systems for receiving, managing and expending public monies in accordance with the authority within the constitution, acts, financial regulations, and budgets. It also includes the system for managing cash releases, maintaining records of receipts and payments, and providing reports for monitoring and control.

The accounting system is cash-based, i.e., it records actual cash receipts and payments. The Financial Management Improvement Program Working Committee recommended that the system remain cash-based for the time being but that officers are trained in accrual accounting.

The Commonwealth Secretariat Debt Recording Management System (CS-DRMS) is used to record and forecast debt flows and balances. The CS-DRMS system was developed, and is supported, by the Commonwealth Secretariat. New system software releases are provided periodically.

2. Constitution of the Independent State of PNG

Part VIII, Subdivision A of the Constitution refers to the Parliament and Finance as follows:

Parliament Responsibility

Notwithstanding anything in this Constitution, the raising and expenditure of finance by the National Government, including the imposition of taxation and the raising of loans, is subject to authorization and control by the Parliament, and shall be regulated by an Act of the Parliament.

For each fiscal year, there shall be a National Budget comprising –

- (a) *estimates of finance proposed to be raised and estimates of proposed expenditure by the National Government in respect of the fiscal year; and*
- (b) *separate appropriations for the service of that year in respect of –*
 - (i) *the services of the Parliament ;*
 - (ii) *general public services ;*
 - (iii) *the services of the Judiciary; and*
- (c) *such other supplementary Budgets and appropriations as are necessary.'*

3. Public Finances Management Act

Under the Public Finances (Management Act) 1995, all government monies are maintained in the Public Accounts. This subdivides into (i) the Consolidated Revenue Fund and (ii) the Trust Fund. In general, receipts of monies by Government are dealt with through the Consolidated Revenue Fund, and payments are made from this Fund, unless there is approval under circumstances provided for in the Act to use a Trust Account.

The Public Finances (Management Act) 1995 is the legislative authority for the management of public finances, including those relating to Provincial Governments and Local-level Government as required under the Organic Law. The provisions of the Act deal with all of the aspects of fund management and recording. The main points of the Act are summarized as follows:

- Defines the responsibilities of those responsible for financial management including the Minister and Department Head of the Department responsible for financial matters, other departmental heads and accountable officers.

- Defines the Public Accounts Trust Fund and Consolidated Revenue Fund for handling all Government monies, into one of which all receipts must be paid, and from which monies may only be paid in accordance with the law.
- Provides for an annual National Budget, and allows for transfers between budget head within limits set by the annual budget.
- Under budgetary control provides for warranting of expenditure in accordance with parliamentary appropriations.
- Provides that the Minister for Finance and Treasury shall approve the budget of provincial governments.
- Provides that Provinces and Local-level Government shall keep proper accounts and records of transactions.
- Allows for the issue of Financial Regulations, section 115, by the Head of State for the better control and management of public monies and public property.
- Under Section 117, the Secretary Finance and Treasury is authorized to issue Financial Instructions, which have statutory authority as though they were part of the Act. Department heads can also issue instructions consistent with the Act
- Makes the Department of Finance and Treasury responsible for the release of funds, accounting, and financial reporting requirements.
- Provides for matters relating to state tenders and contracts.

4. Department of Finance and Treasury (DFT)

The above legislation makes the Secretary of the Department of Finance and Treasury responsible for overall financial management. In respect of each department, the Departmental Head is responsible, not only for compliance with Parliament's approved budget and with instructions issued by the Finance Secretary, but also for effective resource management.

The Secretary of Finance and Treasury is also responsible for sub-national levels of government, through provincial treasurers, who are part of his staff and have responsibilities to ensure that all public monies are managed and released in accordance with the law, Section 70 of the Public Finances (Management) Act.

The current structure of the DFT was approved on 7 April 1999, and the Secretary heads the Department. The structure then divides into two sections, being Policy and Operations, each headed by a Deputy

Secretary. The divisions shown under each section, are headed by a First Assistant Secretary, FAS. A brief summary of each division's responsibility is outlined in Appendix 4.

5. Information Systems

The Information Technology Division (ITD) evolved from the former National Computer Center (NCC), through Management Information Services (MIS), to its present focus within the Department of Finance and Treasury (DFT) as the provider of primarily financial systems to the Treasury, National Departments, and to the Provinces and Local-Level Governments.

Originally, the NCC developed as a government-wide organization supporting information technology services to a large number of national departments, and at one time operated some 40 applications. The hardware platform for the NCC was based on a Fujitsu / ICL Series 39/80 Mainframe computer.

The emerging technology of personal computers and UNIX-based open systems has led to the migration of all applications carried out by Mainframe technology onto departmental based platforms. The Mainframe computer is no longer used for operational data processing. The core of the former NCC has been integrated into ITD and continues to supply the Treasury Management System (TMS) and National Government payroll services.

Donors have funded many programs and projects involving the implementation of IT systems, but the systems have largely been developed in isolation. The systems are listed below:

- The Treasury Management System (TMS)
- The Payroll and Human Resource Management (HRM) systems
- PNG Government Accounting System (PGAS)
- Planning Budgeting System (PBS)
- The Commonwealth Secretariat-Debt Recording and Management System (CS-DRMS)

6. Budget Procedures

Within the DFT, the Budget Division and the Economic Policy Unit (EPU) are involved with the budget process.

The responsibilities of the Economic Policy Unit (EPU) of the Department include resource forecasting, setting the overall ceiling for the budget that is approved by Cabinet, cash flow profiling of budgets, analyzing and tracking cash flows.

The Department of National Planning also prepares the Public Investment Program (PIP). This is a medium-term rolling plan (five years) showing projected development estimates and donor support, and is presented to Parliament as Volume 3 of the budget documents. The PIP is the financial plan for achieving the Government's medium-term development objectives.

Present System

The financial year of the Government is the calendar year. The budget process embraces both national and sub-national budgets. These are related through the grant system and the need for central approval.

Budget ceilings are not predetermined for Departments, but are set after the submission of the estimates. For Provinces, the Organic Law sets their grant-funded ceilings. In practice, the grants appropriated are invariably lower than those defined by formulae in the Organic Law.

Centrally, the budget process uses a computer database known as the Planning Budget System, which is commonly referred to as PBS. There are budget preparation manuals, which set out the coding structure budgets and specify in detail the formats in which budgets are to be prepared and presented.

In National Departments, budgets are prepared "bottom-up" using the standard format as required by the DFT. Spending divisions submit their estimates in detail to the central finance and administration division where they are consolidated and agreed for presentation to the Budget Division of the DFT.

Assets Management

There is presently no comprehensive asset management or asset recording system. The introduction of an asset management system for use at national and sub-national levels under the Financial Management Project will provide the basis of a comprehensive recording system that should provide:

- A register of assets
- Identification and tracking of assets

- Asset usage
- Valuation of assets
- Recurrent costs budgeting
- Aid replacement planning
- Record disposal
- Asset charging, depreciation and amortization
- Asset diary

There is no Central Assets Register maintained and consequently there is no reconciliation between capital expenditure and physical recording of fixed assets.

Departmental Assets Registers are required to be maintained however; the Auditor-General's Annual Reports to Parliament indicate that most Government departments are not maintaining these Registers as required.

Accounting Computer Systems

Within DFT, the Public Accounts Division is responsible for the preparation of monthly and annual accounts. Provincial Treasuries are directly under the control of the DFT. Departments prepare their own accounts for consolidation into the central system, using their own staff who have no line responsibility to DFT. There are two computer systems in use:

- TMS (Treasury Management System). This is only used centrally.
- PGAS (originally Provincial Government Accounting System, but renamed PNG Government Accounting System). This is used at more than 50 sites, including Provinces and Departments.

One Department, namely Works, has developed its own system, with donor support, based on Oracle Financials. The package has been custom modified by including a module to handle warrants.

A payroll HRM system is used centrally and links to the ledger accounting system.

PGAS also has a payroll module and is used for a number of salary payments

Treasury Management System (TMS)

TMS is a general ledger system based on Oracle Financials and client-server technology.

Monthly the Public Accounts Division of DFT supplies to each department a comprehensive computer report which can be used as an aid to financial reporting and monitoring within the organization.

PNG Government Accounting System (PGAS)

The system was initially developed for the Provincial Governments in 1985 as the Provincial Government Accounting System, but subsequently used by the National Departments of Government (excepting the Department of Works and Transport). It is now used in more than 50 sites. The system operates on SCO UNIX and Intel PC platform, and is written in Multibase, a proprietary database. Year 2000 compliance was successfully achieved.

The system has adequate functionality (accounts payable, accounts receivable, cheque reconciliation, and Provincial payroll) and is essentially a simple and unsophisticated bookkeeping system well suited to the requirements of the Provincial and Local-level Governments.

Payroll and Human Resource Management Computer Systems

The payroll system was until 1999, based on a 25-year-old ICL payroll system. IT was used to pay 64,000 public service employees on a fortnightly basis. A new payroll system was custom developed in Oracle and implemented during 1999. The purpose was to achieve year 2000 compliance, and existing business rules and functionality were retained.

7. The Public Accounts Committee

The Constitution of the Independent State of Papua New Guinea

The Public Accounts Committee (PAC) is established under clauses 215 and 216 of the Constitution and is summarized as follows:

1 *Establishment of the Committee*

There shall be a Public Accounts Committee, which is a Permanent Parliamentary Committee for the purpose of Subdivision VI.2.E (the Committee system)

2 *Functions of the Committee.*

The primary function of the Public Accounts Committee is, in accordance with an Act of the Parliament, to examine and report to the Parliament on the public accounts of

Papua New Guinea and on the control of and on transactions with, or concerning, the public moneys and property of Papua New Guinea.

- 3 *Subsection (1) extends to any accounts, finances and property that are subject to inspection and audit by Auditor-General under Section 214 (2) (functions of the Auditor-General), and to reports by the Auditor-General under that subsection or Section 214(3) (functions of the Auditor-General)'.*

Public Accounts Committee (PAC) Activities

Although a PAC has been appointed, it is understood that the Committee's activities have come to a standstill and the Committee has not met for at least three years.

8. Corruption Issues in the Public Service

There have been several serious cases of public service corruption in the last decade and there has been much media attention directed towards possible serious cases; however, there have been very few successful prosecutions in Papua New Guinea.

A recent initiative to fight corruption in the Public Service was the signing of a "Statement of Alliance" which paves the way for the establishment of an effective system of investigating corruption in Papua New Guinea. Department heads representing Police, Finance and Treasury, Provincial and Local Governments, Attorney-General, Ombudsman Commission, Public Prosecutor, and Department of Personnel Management signed the Statement in the presence of the Chief Secretary and other departmental heads.

The initiative was the result of work done by the Public Sector Anti-corruption Liaison Committee that was established in 1999. The Committee has developed an anti-corruption strategy that recommends the establishment of a National Anti-corruption Agency that will combine the existing resources to effectively investigate and prevent corruption.