

VIII. Issues and Recommendations

This chapter presents the issues and recommendations that are associated with gaps or weaknesses in accounting and auditing arrangements. The issues and recommendations are divided into two parts as follows.

- Part One. Where the matter referred to may be considered and, if any action were to be taken, this would be better achieved with external assistance.
- Part Two. Where the matter referred to may be considered and, if any action is to be taken, this may be achieved without the need for external assistance.

Part One. Where External Assistance Might be Appropriate

1. Development of Public Sector Training – PNGIA

The International Federation of Accountants has issued eight International Public Sector Accounting Standards (IPSAS) and seven Exposure Drafts (EDs) for comment. The first eight IPSAS issued are based on accrual accounting and ED 9 refers to Financial Reporting under the Cash Basis of Accounting.

Since Public Sector Accounting has now gathered momentum on an international basis, it is convenient to introduce appropriate training to cover this subject. Universities and colleges should be encouraged to include this subject in their curriculum. However, it is considered that the best course of action may be gained through using the facilities and expertise of the PNGIA.

In order that the appropriate training in Public Sector Accounting be established and that due recognition is given to those who have completed this training, it is recommended that a separate status of Public Sector Accountant be created in the PNGIA.

The PNGIA currently requires its Registered Graduates to pass seven subjects, presented in modular style, before they can move to the status of Associate or Fellow. It is therefore recommended that a further module be introduced for Public Sector Accounting and that two of the current modules be reduced in content, possibly Taxation and Business Law, in order that the total amount of study remains the same.

It is further recommended that technical assistance be considered in order to establish and revise the appropriate modules

2. Accounting Education Requirements

The most significant problem regarding accounting education in Papua New Guinea is the acute shortage of student positions available at universities and colleges. This year the Divine Word University at Madang accepted 60 accounting students from 200 applications and the UPNG accepted approximately 100 out of 400 applications. It is estimated that one in four accounting student applications are accepted for enrolment throughout Papua New Guinea. It is further estimated that 2,000 qualified accountants are currently required to fill available positions in the public and private sectors.

There are a number of institutions with plans to increase the number of classrooms for business, accounting, and computer education. These institutions all have the land available for building extensions. However, funding of these facilities is urgently required. The position with these institutions is as follows:

- University of Papua New Guinea. The UPNG has approval in principle to establish facilities for a School of Business Administration. A Professor in Business Studies is being recruited to activate this facility in 2001. At this stage there are no reports available which give details of student capacity, design parameters or funds required. The UPNG is owned by the PNG government
- Pacific Adventist University. The PAU needs to increase the size of enrolment and keep pace with demands for innovative instruction and experience in the School of Business center. To achieve this, the university needs to build a new fully equipped School of Business Studies. Ideally, this would consist of computer labs, two lecture halls, faculty office space, a workroom/resource center, and four classrooms. Including one classroom fully equipped for instruction in office administration. PAU has already designated a location for this building.

Currently the school is housed in a number of locations and the construction of a School of Business center would facilitate operations that are more efficient. The increased classroom space would also allow for an increase in student numbers.

The School of Business has preliminary plans to offer an MBA, a graduate diploma, and professional development classes for employed individuals. These courses would cater for both the private profession and the public sector, and may be offered on an

external basis. A new School of Business center would facilitate these developments.

As the School of Business grows, other needs are immediately apparent. Expanded dormitory space is needed to provide for increased enrolment and this project is also receiving due attention. Further, the university library needs to expand its facilities in order to increase space for holdings, equipment and resource materials. The construction of a new School of Business would increase library space as the school of Business currently takes up a significant amount of library space. The Seventh Day Adventist Church owns the PAU.

- Institute of Business Studies. The area of land occupied by IBS is insufficient to meet expansion requirements. Currently IBS is rejecting 75 percent of its student applicants because of lack of classroom space.

IBS has purchased 33 hectares of land at Soger, near Port Moresby and intends to relocate as soon as possible. This facility would accommodate approximately 2,500 students compared with 500 students at the present facility. IBS is a privately-owned institute and provides training facilities for only business, accounting, and computing courses.

- The Divine Word University at Madang, like other institutions, only has sufficient classroom space to accept approximately 25 percent of accounting student applicants. The needs of this institution are as follows:
 - New Business Studies Building with fully equipped lecture rooms;
 - A computer laboratory set up for networking and connection to Internet; and
 - More library reference materials on accounting, business, and related topics.

In order to partly meet the acute shortage of training facilities for business, accounting and computing courses in Papua New Guinea, it is recommended that, after feasibility studies have been undertaken, assistance be considered for the increase in facilities at the following institutions:

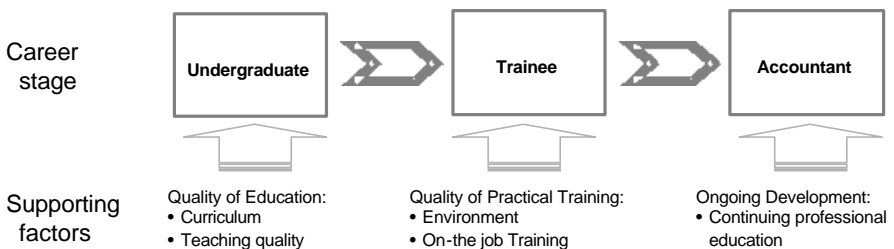
- **University of Papua New Guinea – establish School of Business Administration.**
- **Pacific Adventist University – establish School of Business Studies.**

- **Institute of Business Studies – establish Private Business College to accommodate 2,500 students.**
- **Divine Word University – establish business studies building and computer laboratory.**
- **The following institutions should also be included in the feasibility study; PNG Institute of Public Administration, Board of Studies College, Lae Technical College, Jubilee College and Institute of Distance Continuing Education.**

3. Training for Accounting Lecturers and Professors

In order to develop competent accounting graduates, the trainers themselves must be thoroughly conversant with modern-day practices and trends. Figure 1 presents a simplified way of looking at the factors that support the development of competent accountants.

Figure 1: Developing Competent Accountants



The quality of undergraduate teachers is a key factor in developing competent accountants.

It is recommended that:

- **a specific training program for accounting professors and lecturers be developed and implemented. This training program should include present day best practices in accounting procedures and current information available on International Accounting Standards. Important matters such as information technology (including both hardware and software) should also be included; and**
- **a professional organization be established in order that accounting professors and lecturers may further their education and share their technical knowledge through a common forum.**

4. Forensic Audit – Auditor-General's Office

The Auditor-General of PNG confirmed that fighting corruption within the Public Service was high on the Government's agenda. The Auditor-General has requested ADB's assistance in establishing a Forensic Audit Unit within his Department. Some of the Auditor-General's staff have recently been trained in ADB-assisted Instructor Training Program conducted by Asian Organization of Supreme Audit Institutions (ASOSAI) and SPASAI (South Pacific Association of Supreme Audit Institutions) and it is intended to use these people to set up the Unit.

It is recommended that technical assistance be provided to the PNG Government to assist in the establishment of a Forensic Audit Unit within the Department of the Auditor-General.

Part Two. Matters Where Donor Assistance is Not Required

5. Papua New Guinea Public Sector Accounting Standards

The Public Sector Committee of the International Federation of Accountants has issued eight International Public Sector Accounting Standards (IPSAS) on the 24 May 2000.

IFAC is encouraging all governments to adopt these IPSAS as a base to form their own Public Sector Accounting Standards. IFAC also recommends the adoption of full accrual accounting as the basis of Government accounting however the move from a cash basis of accounting to a full accrual basis should be gradual.

It is recommended for consideration that Papua New Guinea establishes its own PNG Public Sector Standards and that these Standards be based on the International Public Sector Accounting Standards issued by IFAC on 24 May 2000.

6. Establish Public Sector Accounting Standards Board

International importance is now being actively directed towards the issue of accounting standards for the public sector, and it is appropriate that Papua New Guinea should keep pace with developments.

It is recommended that consideration be given to the setting up of a

Papua New Guinea Public Sector Accounting Standards Board in order to plan and establish the PNG Public Sector Accounting Standards, and to organize and monitor the implementation of these Standards.

7. Establish Accountant-General Position within the Department of Finance and Treasury

With the introduction of International Public Sector Accounting Standards, the DFT establishment needs to be reviewed in order that due recognition is given to developments in this area. There appears to be no senior officer within the Department whose duties include the monitoring and review of accounting standards. It is understood that the Provincial Liaison Division does some work on accounting standards. However, these responsibilities appear to be better placed in a division headed by an Accountant General.

It is recommended that consideration be given to the creation of a position entitled "Accountant General." The duties of this position would ideally include the monitoring and review of International Public Sector Accounting Standards. Recommendations would come from this officer regarding the adoption of Standards and these submissions would be made to the Public Sector Accounting Standards Board.

It is further recommended for consideration that the functions and responsibilities of the Public Accounts Division be included in the duties of the Accountant General

8. The Accountants Act 1996

The PNGIA have advised that although the Accountants Act was only promulgated in 1996, it is in urgent need of review. One of the major problems refers to accountants in employment. Under Section 67 of the Act, "a person who

- (a) *possesses qualifications at certificate, diploma, degree or professional level in commerce economics, business or in related disciplines; and*
- (b) *is employed by the State or by a statutory body or by a private organization to perform duties connected with*
 - (i) *the recording, classifying, and analyzing of financial transactions;*
or
 - (ii) *the preparing of financial information; or*
 - (iii) *the making of financial or business decisions: or*

- (iv) *auditing and/or investigating transactions of an accounting nature; or*
- (v) *book-keeping and accounting generally,*

shall be registered as an Accountant in Employment.

The prospective employer of a person to whom Subsection (1) applies shall apply for the registration of that person prior to that person commencing employment.

Under Section 43 of the Act

"2 A person registered under this Part shall –

- (a) *within two months of the date of registration, become a member of the Institute; and*
- (b) *thereafter during the period of his registration remain a member of the Institute."*

The strict interpretation of these sections means that if a qualified person intends to carry out work of an accounting nature in the private or public sector, he/she must be registered with the Accountants Registration Board and the onus of this action is on the prospective employer to ensure this happens before employment is commenced.

Obviously there are many employees and employers, including the PNG Government, who are acting illegally under the Accountants Act and this situation needs to be corrected urgently.

It is recommended that the Accountants Act be urgently reviewed in line with suggestions by the PNGIA, and that the sections dealing with Accountants in Employment be immediately addressed.

It is further recommended that the PNG Government, in order to comply with the Accountants Act, should consider funding the registration of its Graduate Accountants in the Public Service with the Accountants Registration Board and the PNGIA.

9. Public Accounts Committee

The Public Accounts Committee is established under Article 215 of the Constitution and its powers and procedures are established by Parliament in accordance with Article 118 covering the rules of Permanent Parliamentary Committees

The primary function of the Public Accounts Committee is 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.

This function 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).

It is understood that the PAC has not held a public hearing for at least three years although the Committee has been constituted. In previous years, the PAC met on a regular basis and instilled public confidence in the Government system of examination and questioning of the actions of public officials.

It is recommended that, in accordance with Articles 118 and 214 of the Constitution, the Public Accounts Committee be required to meet on a regular basis in open public hearings.

10. ADB Anti-corruption Policy

The ADB's anti-corruption policy centers on three objectives: (i) supporting competitive markets, and efficient, effective, accountable, and transparent public administration, as part of ADB's broader work in governance and capacity building; (ii) supporting promising anti-corruption efforts on a case-to-case basis and improving the quality of ADB's dialogue with its developing member countries (DMCs) on a range of governance issues, including corruption; and (iii) Ensuring that ADB's projects and staff adhere to the highest ethical standards.

In order to combat corruption in the public service the following procedures should be considered:

- **Adequate accountability measures should be in place within the public service. These measures should be transparent to the individuals concerned and should be covered in position descriptions, or included in finance instructions.**
- **Procedures should be in place for the detection and investigation of corruption. Strengthening internal control procedures or broadening the scope of the internal audit may achieve this.**
- **The employment and training of accountants should be enhanced within the public service. All accounting bodies have a stringent code of ethics and deviations from this code could lead to dismissal from the accounting society. The employment of people**

committed to these ethical codes of behavior will enhance the overall integrity of public servants. Employees should be encouraged to further their careers by taking up additional training, which will lead to obtaining professional qualifications. The Government should undertake Retraining and training in Government procedures.

- **Effective internal controls with properly constructed transparent guidelines should be established and adherence to these guidelines should be monitored. This monitoring process could be achieved by inclusion in the mandate for internal audit.**