

Financial Management and Governance Issues in Papua New Guinea

Francis B. Narayan
Lead Financial Specialist
Asian Development Bank

Ted Godden
International Consultant

Prepared Under Regional Technical Assistance (RETA)
*5877: Strengthening Financial Management and Governance in
Selected Developing Member Countries.*

© Asian Development Bank 2000

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, without the prior permission in writing of the Asian Development Bank.

This publication was prepared by consultants and staff of the Asian Development Bank. The findings, interpretations, and recommendations are those of the authors and do not necessarily reflect the policies or views of the Asian Development Bank, its Board of Directors, or the governments they represent.

The Asian Development Bank does not guarantee the accuracy of the data included in this publication and accepts no responsibility for any consequences for their use. Map boundaries are not necessarily authoritative.

ISBN: 971-561-331-4

Published and printed by the Asian Development Bank
P.O. Box 789, 0980 Manila, Philippines

Foreword

This report describes financial management and governance arrangements in Papua New Guinea, identifies deficiencies in those arrangements, and presents recommendations to address those deficiencies. For the purposes of this study, financial management and governance arrangements are narrowly defined as being accounting and auditing arrangements, and practices.

The report was prepared for the Asian Development Bank by Ted Godden (International Consultant) with overall guidance from Francis B. Narayan (Lead Financial Specialist, ADB) under Regional Technical Assistance (RETA) 5877 – *Strengthening Financial Management and Governance in Selected Developing Member Countries*. William Daniel provided able research assistance. The contents of the draft report were discussed and debated with representatives from the Government, the private sector, and international organizations at a workshop that was held in Port Moresby on 20 September 2000. The issues and recommendations were further discussed at an international conference at ADB headquarters in Manila from 16-18 October 2000.

This report should be read in conjunction with the Summary Report, which identifies and examines selected issues in relation to financial management and governance.¹

The authors would like to offer their appreciation to the numerous officials, researchers, and agencies that gave up their valuable time and made materials available during the course of the research. In particular, we would like to thank: the staff at ADB office in Port Moresby for their support; Thaddeus Kambanei (First Assistant Secretary, Public Accounts, Department of Finance and Treasury), for chairing the Port Moresby workshop; Cedric Saldanha (Manager, Office of Pacific Operations, ADB), for moderating the Manila conference session at which this report was discussed; and Robert Wheeler (Executive Director, Papua New Guinea Institute of Accountants) and, again, Thaddeus Kambanei, for their involvement in the study and their representation at the Manila conference.

¹ Narayan, Francis B., Ted Godden, Barry Reid, and Maria Rosa P. Ortega. 2000. *Financial Management and Governance Issues in Selected Developing Member Countries: A Study of Cambodia, People's Republic of China, Mongolia, Pakistan, Papua New Guinea, Uzbekistan, and Viet Nam*. Asian Development Bank.

For further information, please visit ADB's website at: www.adb.org or contact:

The Lead Financial Specialist
Asian Development Bank
6 ADB Avenue
Mandaluyong City, Metro Manila
P. O. Box 789
0980 Manila, Philippines

Tel. (632) 632-6651 Fax: (632) 636-2365 E-mail: fnarayan@adb.org

Currency Equivalents

(as at 5 October 2000)

Currency Unit	–	Kina (K)
K1.00	–	\$0.3230
\$1.00	–	K3.096

Abbreviations

ADB	Asian Development Bank
ASCPA	Australian Society of Chartered Public Accountants
ASOSAI	Asian Organization of Supreme Audit Institutions
AusAID	Australian Agency for International Development
CPE	Continuing Professional Education
DFT	Department of Finance and Treasury
GAAP	Generally Accepted Accounting Practice
IAAS	International Accounting and Auditing Standards
IAS	International Accounting Standard
IFAC	International Federation of Accountants
IMF	International Monetary Fund
INTOSAI	International Organization of Supreme Audit Institutions
IPSAS	International Public Sector Accounting Standard
ISA	International Standard on Auditing
PNGIA	Papua New Guinea Institute of Accountants
RETA	Regional Technical Assistance
SAI	Supreme Audit Institution
SOE	State-owned Enterprise
TA	Technical Assistance
UNDP	United Nations Development Program

Notes

- (i) The financial year of all organizations, including the Government, ends on 31 December.
- (ii) In this report, \$ refers to US dollars.

Contents

EXECUTIVE SUMMARY.....	1
I. INTRODUCTION.....	5
1. Study Background.....	5
2. Objectives.....	5
3. Scope.....	6
4. Country Case Studies and Workshops.....	6
5. ADB Focus on Financial Governance in PNG.....	7
6. Papua New Guinea.....	7
II. ACCOUNTING AND AUDITING IN PNG.....	9
Part One. Accounting.....	9
1. Introduction.....	9
2. Companies Act 1997.....	10
3. Exempt Companies.....	11
4. Generally Accepted Accounting Practice [GAAP].....	11
5. Contents of the Annual Report.....	12
6. Accounting for Banks and Financial Institutions.....	13
7. Accountants Registration Board of Papua New Guinea.....	13
8. Accountants – Registration and Qualifications.....	15
Part Two. Auditing.....	17
9. The Auditor-General.....	17
10. Private Sector.....	22
11. International Accounting and Auditing Firms.....	24
III. PROFESSIONAL INFRASTRUCTURE.....	25
1. The Papua New Guinea Institute of Accountants.....	25
2. Australian Society of CPAs – Papua New Guinea Branch.....	34
IV. ACCOUNTING AND AUDITING STANDARDS.....	37
1. Introduction.....	37
2. International Public Sector Accounting Standards.....	37
3. Accounting Standards Board.....	40
4. International Accounting Standards.....	41
5. PNG Accounting Standards.....	42
6. Auditing Standards.....	42
V. ACCOUNTING AND AUDITING TRAINING.....	43
1. Introduction.....	43
2. Institutional Training Establishments.....	44
3. Entry Requirements.....	44

4.	Public Sector Training.....	45
5.	University of Papua New Guinea.....	46
6.	The PNG Institute of Public Administration.....	46
7.	Pacific Adventist University.....	47
8.	Planning Proposal – School of Business Studies.....	49
9.	Institute of Business Studies.....	50
10.	Divine Word University – Madang.....	55
11.	Papua New Guinea Institute of Accountants.....	55
VI.	GOVERNMENT BUDGETING AND ACCOUNTING.....	59
1.	Introduction.....	59
2.	Constitution of the Independent State of PNG.....	60
3.	Public Finances Management Act.....	60
4.	Department of Finance and Treasury (DFT).....	61
5.	Information Systems.....	62
6.	Budget Procedures.....	62
7.	The Public Accounts Committee.....	65
8.	Corruption Issues in the Public Service.....	66
VII.	DONOR ASSISTANCE.....	67
1.	Introduction.....	67
2.	Overview.....	67
3.	Financial Management Improvement Program.....	68
4.	Financial Management Project.....	69
5.	Funding of FMP.....	70
6.	The PNG Government Structural Reform Program.....	71
7.	ADB Technical Assistance.....	71
VIII.	ISSUES AND RECOMMENDATIONS.....	73
	Part One. Where External Assistance Might be Appropriate.....	73
1.	Development of Public Sector Training – PNGIA.....	73
2.	Accounting Education Requirements.....	74
3.	Training for Accounting Lecturers and Professors.....	76
4.	Forensic Audit – Auditor-General's Office.....	77
	Part Two. Matters Where Donor Assistance is Not Required.....	77
5.	Papua New Guinea Public Sector Accounting Standards.....	77
6.	Establish Public Sector Accounting Standards Board.....	77
7.	Establish Accountant-General Position within the Department of Finance and Treasury.....	78
8.	The Accountants Act 1996.....	78
9.	Public Accounts Committee.....	79

10. ADB Anti-corruption Policy	80
IX. MAIN DEFICIENCIES AND ACTION PLAN	83
REFERENCES.....	85

Appendixes

Table of Appendixes	87
Appendix 1. Interviewees.....	89
Appendix 2. RETA-5877 (Regional Study) Information.....	91
Appendix 3. Constitution of Papua New Guinea	93
Appendix 4. Divisions of the Department of Finance and Treasury..	106
Appendix 5. The Banking Sector.....	112
Appendix 6. The Securities Act	115
Appendix 7. Accountants Registration and Practice Rules 1999.....	116
Appendix 8. Papua New Guinea Institute of Accountants.....	119
Appendix 9. University of Papua New Guinea.....	127
Appendix 10. Pacific Adventist University.....	130
Appendix 11. The Institute Of Business Studies	133
Appendix 12. PNG Institute of Public Administration	138
Appendix 13. Workshop Participants.....	141



2011 CANTON & BENTON

Executive Summary

Background

The island of New Guinea is divided into two countries: Irianjaya (Indonesia) to the west and Papua New Guinea (PNG) 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.

External shocks and economic mismanagement made 1999 a difficult year. However, following the appointment of a new government, the economic growth rate surpassed expectations to reach 3.9 percent. Future growth will depend upon maintaining good governance and spreading the benefits of development to the poor.²

Developments and Challenges

Generally, accounting was introduced into Papua New Guinea after World War II. During the 1950s the users of accounting systems were plantations, large trading companies, the PNG Administration, and the Australian Administration.

In the 1960s, mining companies and local businesses became more prominent and universities and colleges commenced operations in Port Moresby and Lae, although accounting degree programs were not available until the late 1970s.

Self-government was established in 1973, the PNG Institute of Accountants Inc. commenced in 1974 and Papua New Guinea gained its independence in 1975.

² Asian Development Bank. 2000. *Asian Development Outlook 2000*. p. 157.

The problems with the accounting profession at that time were centered on the following:

- No PNG accountants;
- No accounting degree programs;
- No regulatory agencies; and
- Heavy reliance on foreigners.

Objectives and Responses

The immediate objectives at independence were to upgrade the accounting profession, train PNG citizens to become accountants, adopt standards for accounting and auditing and introduce regulations and registration procedures. In response to these requirements the following important laws were passed: Public Finance Management Act 1985; Audit Act 1989; Public Finance Management Act (Amended) 1995; Accountants Act 1996; New Companies Act 1997; and Securities Act 1997.

Accounting and Auditing in PNG

The accounting system in Papua New Guinea is governed by the Accountants Act (1996) which established the Accountants Registration Board and the PNG Institute of Accountants (PNGIA); and the Companies Act (1997) which established the principles for Financial Statements Reporting and Annual Reports and also established the Accounting Standards Board (ASB). The ASB approves International Accounting Standards (IAS), International Standards on Auditing (ISA) and PNG Accounting Standards, based on recommendations from the PNGIA.

The PNG Government uses a cash basis of accounting and the private sector and Government Statutory Authorities use accrual accounting based on IAS.

The Audit Act governs audit practice in the public sector. The Act established the Office of the Auditor-General (AG). The AG is not subject to ministerial direction and reports directly to Parliament.

There are 31 accounting and auditing firms in Papua New Guinea, including three from the international "big five," the other two are represented by other firms in PNG. The Companies Act 1997 details the provisions relating to the appointment, qualifications, responsibilities, and duties of auditors in relation to the private sector.

Professional Infrastructure

The PNGIA Inc. was originally established under the Companies Act in 1974 and is now established under the Accountants Act (1996). The Institute has 1,500 members, both citizen and non-citizen. A development program was introduced in the mid-1990s and professional examinations introduced. Registered graduates need to pass in the Competency exam to become an Accounting Technician, and pass seven other core subjects to become an Associate. Special experience and at least 10 years' membership are required to become a Fellow. Forty hours per year of Continuing Professional Education (CPE) are required – 20 hours structured and 20 hours unstructured.

The National Council is the main governing body and manages the affairs of PNGIA through the Executive Committee and various subcommittees. A branch of the Australian Society of Certified Public Accountants (CPAs), with 180 members, also exists in PNG.

Accounting and Auditing Standards

International Accounting Standards have been adopted in PNG without alteration to the Standards. Problems exist with the application of these Standards in some local audit firms and businesses. Papua New Guinea Accounting Standards have been adopted for PNGAS 3 "Accounting for Plantations" and PNGAS 4 "Reporting Currency." International Standards on Auditing have been adopted, using International Federation of Accountants (IFAC) standards for the private sector.

The Auditor-General has adopted International Organization of Supreme Audit Institutions (INTOSAI) Standards on Government field audits. International Public Sector Accounting Standards have not been considered for adoption in PNG at this stage.

Education and Training

Bookkeeping and computerization are taught in primary and high schools and community schools. Full-time Accounting Diploma and Degree courses are covered at universities and colleges; however no Masters Degree courses are available in PNG. The curricula of degree courses are based on IAS.

There are two State-owned universities and four State-owned colleges. Private sector interests also own two universities and four colleges. Accounting students currently number 1,800 with

approximately 4,000 qualified graduates, of which 1,500 belong to the PNGIA. Papua New Guinea needs approximately another 2,000 accountants: 50 percent in the public sector and 50 percent in the private sector. There is very little accounting training provided by the Department of Finance and Treasury and some audit training is provided by the Auditor-General's Department.

Government Budgeting and Accounting

The PNG Constitution contains articles covering financial matters such as taxation, loan raising, public accounts, national budget and audit. The Public Finance Management Act (1995) details procedures relating to the Consolidated Revenue Fund and the Trust Fund, and is the legislative authority for the management of these funds.

The Public Finance Management Act defines the National Budget and allows for transfers between appropriations. The Act also allows for the issue of Finance Regulations and Instructions. There is a Centralized Budget System in place and no centralized Asset Management and Control System. There are five Information Technology systems in place. The Public Accounts Committee has not met for at least three years although the Constitutional office holders have been appointed.

Donor Assistance

The ADB-sponsored Financial Management Project (FMP) (PNG 30535) covers the strengthening of public sector financial management. The FMP also assisted the Year 2000 Information Technology Remedial Program. Under the Government's Financial Management Improvement Program a strategic framework was developed covering:

- Implementation Plan and Terms of Reference for Consultants;
- Details of Operational Strategies;
- Details of Information System Packages;
- Details of Human Resources and Training Strategies;
- Chart of Accounts; and
- Details of Existing Financial Management.

The World Bank and ADB-supported Government Structural Reform Program is designed to improve fiscal management and governance.