

PART 21 – FINANCIAL MANAGEMENT REPORTING OF PROVINCIAL AND LOCAL LEVEL GOVERNMENT

1. Introduction

1.1 Provincial and Local-level Governments Financial Responsibility

In accordance with Section 105 and within other powers and functions provided for in the new Organic Law on Provincial and Local-level Governments (hence forth, the Organic Law), and subject to other Constitutional Laws and broad policy guidelines of the National Government, each Provincial and Local-level Governments is empowered to exercise full autonomy, including financial responsibility to decide and plan its own projects, programs and activities. The Organic Law also states that, an Act of Parliament shall make provision for the details of financial autonomy of Provincial and Local-level Governments.

Sections 102 and 112 of the Organic Law state that the Act of the Parliament under which financial regulation of public moneys in the provinces is to be made, is the Public Finances (Management) Act, 1995 as amended from time to time.

These financial management arrangements have therefore been prescribed to provide guidelines and procedures to ensure proper accounting, management and reporting of Provincial and Local-level Government Accounts.

2. Provincial Finance: An Overview

2.1 By virtue of the Organic Law, and within the broad policy guidelines of the National Government each Provincial and Local-level Government in each province is empowered to decide and plan its own projects, programs and activities.

Provincial and Local-level Governments are responsible for their own affairs as provided under Section 105 of the Organic Law and to manage their financial affairs in accordance with provisions of the Public Finances (Management) Act.

2.2 Provincial and Local-level Government Finances

Finances and other resources available to a Provincial and Local-level Government to carry out its plans, projects, programmes and activities as outlined in Section 82 and Section 65 of the Public Finances (Management) Act of the Organic Law mainly consist of internally generated revenue and the grants provided by the National Government.

2.3 Calculations of Grants

Grants made available to a Provincial and Local-level Government in any given financial year, are calculated in accordance with the formulae provided in the Schedules 1 to 6 under the Organic Law.

- 2.4 Using the formulae referred to above, each Provincial and Local-level Government should prepare its Budget Estimates in advance of appropriation by the Parliament and make any necessary adjustments to the original estimates, thereafter.

3. Provincial and Local-level Government Budgeting

3.1 Budget Structure

A significant change in the Provincial Expenditure Budget and thereafter, is the separation between Recurrent and Development or Public Investment Programmes (PIP) Budgets giving rise to two separate budgets and appropriations:

- (i) Recurrent Budget and Appropriation; and
- (ii) Development Budget and Appropriation

3.2 Mode of Financing the Budget

3.2.1 Recurrent Budget

In principle, the Recurrent Budget is financed by Administrative Support Grants in the form of the Provincial and Local-level Administrative Grant and Provincial and Local-level Staffing Grants as per Section 92 of the Organic Law. The minimum amount of Provincial and Local level Administrative Grant will be calculated strictly in accordance with the format described in Schedule 2 of the Organic Law.

3.2.2 Development Budget

In principle, the Development Budget is financed by various development grants in the form of

- Provincial Infrastructure Development Grants as per Section 93 (1) of the Organic law; and
- Town and Urban Service Grants as per Section 94 (1) of the Organic Law; and
- Other Support Grants in accordance with Section 95 of the Organic Law.

3.2.3 Funds may also be made available for financing the Recurrent and Development budget by reallocating unspent appropriation as provided for under Section 24 of the Public Finance (Management) Act.

3.3 Lapsing of Appropriation

Section 27 of the Public Finances (Management) Act, provides that any unutilised grant provided under Section 82,91,92,93,94 and 95 of the Organic Law on Provincial and Local level Government will lapse at the end of the fiscal year.

Section 30 of the Public Finances (Management) Act, provides all warrant authorities relating to recurrent appropriation will lapse at the end of the fiscal year in which the warrants were issued.

Subject to Section 34, Section 16 (2) of the Public Finances (Management) Act, strictly prohibits any transfer of funds (or grants) from the Consolidated Revenue Fund to the Trust Fund unless a special transfer is authorised by an Appropriation Act.

In accordance with these statutory provisions, any unutilised grant must be treated strictly in accordance with Financial Instructions for closing annual accounts, issued by the Department of Finance at the end of the fiscal year.

3.4 Uniformity in Chart of Accounts and Budget Layout

For proper budgeting, accounting, reporting and to enhance uniformity in the preparation and presentation of Public Accounts by each level of government, it is appropriate and necessary that the Chart of Accounts used by the Provincial and Local-level Governments is of the same structure as that of the National Government.

3.5 Maintenance of Chart of Accounts in the PGAS Databases

To facilitate the above requirements, Provincial and Local-level Governments shall maintain two Chart of Accounts in three separate databases in the PGAS (national database, provincial database and local-level government database):

- (a) The first Chart of Accounts, in the national database, is to cater for expenditures arising out of grants and payments associated with national functions and also for recording national revenue collected in the province by the Provincial Treasury including other national moneys.

- (b) The second Chart of Accounts, in the provincial database, is for the maintenance of records and accounts for internally raised revenues and related expenditures of the province.
- (c) The third Chart of Accounts, in the database is to cater for expenditures arising out of National Government Grants and for the maintenance of records and accounts for internally raised revenue and related expenditures of Local-level Governments.
- (d) The Provincial Treasurer is entrusted with maintaining accounts in the three databases on behalf of the Provincial Government, Local-level Governments and the Department of Finance respectively.

4. Charts of Accounts Structure

4.1 Legal Interpretation

Provincial and Local-level Governments must exercise proper management of public moneys and keep proper accounts and records of financial transactions to satisfy provisions of Section 102, 112 and 114 of the Organic Law. Local-level Governments must also submit audited financial statements in accordance with Section 71 of the Public Finances (Management) Act 1995.

4.2 Chart of Accounts - Expenditure Code Structure:

The expenditure code structure to be used by Provincial and Local-level Governments is described in detail in Appendix I which accompanies this manual.

4.2.1 PGAS Provincial Database

The Expenditure Structure in the PGAS Provincial Database is the same as for the National Database except that the "Grant Type and Number" are not applicable and thus, not required. It is recommended that "9" should be used as the indicator of Grant Type for local level funds and sources where this indicator # has not been previously used. The Divisional Codes are either of 200 series or 700 series in the Chart of Accounts for national and provincial expenditures respectively.

4.3 Revenue Account Codes Structure

The revenue code structure to be used by Provincial and Local-level Governments is also described in detail in Appendix I.

4.4 Responsibility for the Chart of Accounts

Developing the Chart of Accounts and ensuring its accuracy is principally the responsibility of the respective Provincial Treasurer acting upon financial instructions issued by the Department of Finance.

The Provincial Treasurer must ensure that all officers of the Provincial Government, Planning and Budgets Division, including any other Provincial Government officer preparing provincial estimates, are acquainted with the structure of the Chart of Accounts.

Provincial Treasurers must assist with the preparation of the Chart of Accounts and ensure that all District Treasurers and Local-level Government officers are acquainted with the accounting structure of National Government and Provincial Governments to ensure every receipt and payment is properly classified by Treasury Officers.

4.5 Preparation and Compilation of Estimates

Within the broad policy guidelines of the National Government and in accordance with the priorities of the Provincial and Local-level Government, each Local-level Government is responsible for the preparation and compilation of its recurrent and development cost estimates within the amount of grants and manpower ceiling provided by Department of Treasury and the Department of Personnel Management (DPM) respectively.

4.5.1 Recurrent Budget Estimates

Financing and preparing the provincial and local-level government budget is based on the following grant estimates:-

- * Administration cost for goods and services (Section 92 (1) (a) including Wages and Overtime; and
- * Staffing cost for salaries, allowances and other benefits attached to the conditions of service in the Public Service [Section 92 (1) (b)] which includes the following officers under:

Section 73 - Provincial and District Administrators

Section 77 - Teaching Service

Section 78 - Other Staff

Section 80 - Staff under Extended Service of National Departments and Agencies

Section 81 - Executive Support Staff to Provincial Government and Local-level Government

- * Application of Special Support and Economic Grants under Section 97 of the Organic Law for goods and services.

In preparing these estimates, Provincial and Local-level Governments should take note of Section 92 (4) of the Organic Law which reads; "this section does not limit the right of a provincial and local-level government to apply any revenues raised by the provincial and local-level government to the cost of their staffing.

4.5.2 Development Budget Estimates

Development Budget Estimates for Provincial and Local-level Governments are based on the following entitlements:

- * Provincial Infrastructure Development Grants as per Section 93 (1) (a) of the Organic Law; and
- * Town and Urban Services Grants in accordance with Section 94 (1) (a) of the Organic Law; and
- * Local-level Government and Village Services Grants as per Section 93 (1) (b) of the Organic Law; and
- * Other support grants according to Section 95 of the Organic Law.

4.5.3 Use of Budget Forms

For uniformity and standardisation, all budget estimates must be prepared using the Standard Budget Forms supplied by the Budgets Division of the Department of Treasury.

4.5.4 Internal Revenues and Related Expenditures

Sections 86 and 87 of the Organic Law provide for specific taxes and fees to be charged and collected by Provincial and Local-level Governments respectively. Other taxes and fees available to these governments are covered under Section 88 and 89 of the Organic Law.

Projections for each Provincial and Local-level Government's internal revenue should be made realistically and with due care as to the realisation of that projected revenue. Failure to realise such revenues would create revenue shortfalls and consequently affect spending on planned projects, programs and activities.

From projected revenue inflows, Provincial and Local-level Governments are also required to link those revenue inflows to expenditures and prepare appropriate expenditure estimates on planned projects, programs and activities; be it recurrent or developmental.

4.5.5 Preparation and Approval of Provincial Government Estimates.

- (a) During formulation stages, the Provincial Treasurer must perform vetting process to ensure that draft estimates comply with provisions of the Organic Law, the Public Finances (Management) Act 1995, and that Chart of Accounts are arithmetically accurate and consistent with amounts allowable in grants.
- (b) After completing this screening process, the Provincial Administrator, acting as Chief Advisor, will present budget estimates to the JPP & BPC for approval. The JPP & BPC will carefully review this submission using the predetermined priorities of the Province, as a benchmark. It is also important for the JPP & BPC to check that expenditure figures shown in Provincial Government budget estimates do not exceed maximum spending target figures.
- (c) After JPP & BPC gives approval, the JPP & BPC Chairman returns the approved budget estimates to the Governor who will present the budget estimates to the Provincial Executive Council for deliberation. After the PEC considers and ratify the budget, the Governor then presents the budget to the Minister for Finance & Treasury.

4.5.6 Preparation and Approval of Local-level Government Estimates.

- (a) During formulation stages, the District Treasurer must check that draft estimates comply with provisions of the Organic Law, the Public Finances (Management) Act 1995, and that Chart of Accounts are arithmetically accurate and the estimates do not exceed the expenditure ceilings.
- (b) After completing this screening process, the District Administrator, acting as Chief Advisor, will present budget estimates to the JDP & BPC for approval. The JDP & BPC will carefully review this submission using the predetermined priorities of the district, as a benchmark. It is also important for the JDP & BPC to

check that expenditure figures shown in LLG budget estimates do not exceed maximum spending target figures established for each Local-level Government.

- (c) After JDP and BPC gives approval, the JDP and BPC Chairman returns the approved budget estimates to the Head of the Local-level Government who will table the budget estimates to the Local-level Government Assembly for debate and approval.

4.5.7 Vetting and the Ministerial Approval

Provincial Government Budget

After presentation a copy of the approved budget is sent to the First Assistant Secretary, Budget Division who will carry out final check and submit them to the Minister for consideration and approval.

The approved Provincial Government Estimates is returned to Provincial Administration for it to be table in the Provincial Government Assembly for passing the budget estimates into a provincial law.

Local Level Government Budget

After the LLG Assembly considers and passes the budget, a copy of the approved budget is sent to the Provincial Administrator to be given to the Governor of the Province.

The Provincial Treasurer will assemble copies of approved budget estimates for all Local-level Governments together with the approved Provincial Budget, and send these estimates to the First Assistant Secretary - Budgets Division who will carry out final check and submit them to the Minister for consideration and approval in accordance with Section 141 (4) (b) of the Organic Law, if the estimates meet normal requirements.

4.6 Role of the Provincial Treasurer.

4.6.1 Assistance to Provincial and Local-level Governments

Provincial Treasurers are to assist in the preparation of the estimates for the Provincial and Local-level Governments. However, such assistance should be confined to providing sound and professional advice on financial matters.

4.6.2 Monitoring Legal Compliance

In relation to the Budget, Provincial Treasurers and District Treasurers are to ensure compliance with the requirements of the Organic Law and the Public Finances (Management) Act, 1995 as amended.

4.7 Provincial and Local-level Government Cashflow Statements.

4.7.1 Preparation of Cashflow Statements

Provincial and Local-level Governments will prepare the following cashflows:

- * Recurrent Budget - grant inflows (as revenue) and the anticipated expenditure for the year; and
- * Development Budget - grant inflows (as revenues for provincial and local-level government) and the anticipated expenditure; and
- * Similar cashflows should also be made for Internal Revenues of the Provincial and Local-level Governments and their related expenditures for the year to assist in managing the revenue program.

In preparing the cashflow statements, care and prudence should be taken to ensure that the monthly forecasted cash outflow, reflect real needs for cash payments or expenditures expected to occur as forecasted.

Submission of a cashflow statement does not automatically guarantee that National Government grants will be released to Provincial and Local-level Governments strictly in accordance with the scheduled dates described in the cashflow statement.

Release of National Government grants will depend upon the cash resources and the liquidity position of the National Government, so Provincial and District Treasurers are cautioned to carefully monitor spending programs to ensure sufficient cash is available to Provincial and Local-level Governments to satisfy planned expenditure activity.

4.7.2 Submission of Cashflow Statement from Provincial Treasury

The Provincial Treasurer will ensure cashflow statements are prepared for each Provincial Government. The Provincial Treasurer will then collate each cashflow statement for the Provincial Government together with a cashflow statement for

each Local-level Government into a consolidated statement for the Province.

The consolidated statement - describing the projected time frame for the receipt of National Government grants - must be sent to the Department of Treasury for action. Copies of the consolidated statement will be distributed as follows:

Original - to Budgets Division and

Copy 1 - to Accounting Frameworks and Standard Division and

Copy 2 - to Provincial Treasurer

On consolidation of the Provincial and Local-level Government's grants related cashflow statements, it is referred to the Department of Finance for processing.

The District Treasurer will ensure cashflow statements are prepared for each Local-level Government. The District Treasurer will then collate each cash flow statement into a consolidated statement for the District. The statement - describing the projected time frame for the receipt of National Government grants - must be sent to the Department of Treasury for assessment and appropriate funding. Copies of the consolidated statement will be distributed as follows:

Original - to Council Executive Officer; and

Copy 1 - to District Treasurer; and

Copy 2 - to Provincial Treasurer

4.8 Release of Grants by Warrant Authorities and Cash Fund Certificates.

4.8.1 Issuing of Warrants

Based on Provincial and Local-level Government cashflows and subject to the availability of funds, monthly warrant authorities for all grant types will be issued to the Provincial Administrator for both levels of government.

The Provincial Administrator will subsequently issue Cash Fund Certificates (CFCs) to appointed Financial Delegates within the limit of the Warrant Authorities as follows:

(a) For Provincial Government

To the authorised Financial Delegate (s) for spending within the limit of the CFC.

(b) For Local-level Government

To the Council Executive Officer (having been appointed a financial delegate by the Provincial Administrator) for spending within the limit of the cash fund certificate on projects and activities for each Local-level Government.

4.9 Remittance of Cash Components of Grants.

4.9.1 Cash for Provincial Governments

Subject to availability of cash in the Waigani Public Account, the Expenditure and Cash Management Division, will remit the cash equivalent to the credit of the respective Provincial Treasury Operating Bank Account for spending as planned to coincide with release of Warrant Authority.

4.9.2 Cash for the Local-level Government

On receipt of the cash, the Provincial Treasury will transfer the appropriate grant amounts to the Local-level Government together with relevant Cash Fund Certificates for the related purposes, (see the relevant accounting entries in Appendix II).

4.9.3 Release of Warrant Authority and Cash Fund Certificate for Expenditure funded from Internal Revenue

Sections 86 and 87 of the Organic Law give separate but specific powers for Provincial and Local-level Governments to collect their own internal revenue. The same concurrent authority is given to both levels of government to spend their own internal revenue in accordance with their planned programs and activities.

4.9.4 Release of Warrant Authority and Cash Fund Certificate - Provincial Government

The release of such monies will be met by the Provincial Minister responsible for finance matters by way of separate yearly Warrant Authority to the Provincial Administrator who would then issue Cash Fund Certificate in this manner. Cash Fund Certificate is issued to the authorised Financial Delegates for spending within the limits of CFCs on planned programs and projects/activities of the Provincial Government.

4.9.5 Release of Warrant Authority and Cash Fund Certificate - Local-level Government

The release of such monies will be met by the Local-level Government Minister responsible for financial matters by way of separate yearly Warrant Authority to the District Administrator who would then issue Cash Fund Certificate in this manner. Cash Fund Certificate is issued to the authorised Financial Delegates for spending within the limits of the CFCs on planned programs and projects/activities of the Local-level Government.

5. REQUISITION FOR EXPENDITURE

5.1 Authorisation

All requisitions for expenditure are subject to authorisation and approval in accordance with the procurement and tender procedures and guidelines set out in the Public Finances (Management) Act, 1995 and the related Financial Instructions as amended from time to time.

5.2 Approval of Requisitions by Section 32 Officers

The Provincial Administrator, as the deemed Departmental Head is also the Chief Accountable Officer, and therefore a Section 32 Officer, who shall authorise expenditures from the grants and/or the Revenue Fund (internal revenues).

Section 32 (1) of the Public Finances (Management) Act, provides that the Provincial Administrator may appoint officers (ex-officio), to approve requisitions for expenditures from the grants and internal revenue to the limit of the Warrant Authority and may specify conditions for the exercise of that authority by those appointed. Such appointment must be gazetted and copies sent to Department of Treasury.

Section 32 (3) of the Public Finances (Management) Act, provides that an officer who is appointed under Section 32 (1) of the Act, and who wilfully refuses or neglects to comply with the above provisions is guilty of an offence under Section 112.

5.3 Financial Delegates - Appointment and Responsibility

Under Section 32 (4) of the Public Finances (Management) Act, the Provincial Administrator may appoint Financial Delegates to approve requisitions for expenditure in accordance with Cash Fund Certificates. In the absence of a duly appointed Financial Delegate, an alternate Financial Delegate may be appointed to similarly

approve expenditures in accordance with a Cash Fund Certificate. Specimen signatures of the financial and alternate Financial Delegates should be sent to the Provincial Treasury, District Treasury or the relevant Paying Office.

A Financial Delegate implements the expenditure decisions made by the Section 32 Officer in accordance with the prescribe financial procedures and should therefore have undergone adequate training in all facets of public finance management.

6. PROVINCIAL AND DISTRICT TREASURY OPERATIONS

6.1 Establishment and Location

A Provincial and District Treasury is established under Section 112 of the Organic Law to be located at the provincial headquarter or district area. Where the provincial headquarter is also a district, that district will be served by the Provincial Treasury Office; hence, there will be no District Treasury or Treasurer for that District.

Making a District Treasury operational is the responsibility of the Provincial and District Administrator. Where a District Treasury is not established, all the necessary financial and accounting functions and responsibilities for that District will be performed by the Provincial Treasury in close consultation with the Local-level Government.

6.2 Functions of Provincial and District Treasurers

A Provincial and District Treasurer's function is to ensure that all financial transactions undertaken by Provincial and Local-level Governments out of public moneys are managed properly and are released strictly in accordance with law.

6.3 Monitoring Legal Compliance

It is obligatory for Provincial Treasuries and District Treasuries to ensure that their respective Provincial and Local-level Governments exercise proper accountability and prudent financial management in maintaining adequate recording systems on all grants, internally raised revenue and expenditure outlays. Provincial Treasurers and District Treasurers will assist Provincial and Local-level Governments in preparing bank reconciliations and compiling financial statements.

6.4 Cash Offices and Operations

6.4.1 Where there is no District Treasury, Cash Office will be established and located within close proximity of the Local-level Government headquarters in each district and preferably accommodated in the same office building used by Local-level Government.

Cash Offices will be established for each Local-level Government if communication and access to the District Treasury is a problem due to geographical location.

Where access to a Cash Office by the rural population is a problem, Sub-Cash Offices may be established upon recommendation by the Provincial and or District Administrator.

6.4.2 Supervision and Control

Cash Offices in a District are under the control of the District Treasurer (or the Provincial Treasurer if a District Treasury is not operational). Cash amounts equal to National Government Grants due to the Local-level Government will be deposited directly into the Local-level Government Operating Bank Account, if such an account is operational, or through Provincial Treasury Operating Account.

The District Treasurer in close consultation with Local-level Governments will raise Cash Fund Certificates indicating the expenditure priorities identified for each spending period. The release of Cash Fund Certificates will allow spending decisions to proceed and will make available sufficient cash to settle payment claims made by suppliers, creditors and other persons for goods, works and services provided to Local-level Governments.

6.4.3 Cash Office Accounting Procedures

District Treasurers (or the Provincial Treasurer if a District Treasury is not operational) are responsible for ensuring that all public moneys available to Cash Offices are properly reflected in the accounting records of Provincial, Local-level Government and National Governments. Cash Offices will submit accounting forms to District and Provincial Treasuries showing National Government grants received by Local-level Governments and disbursements made from the grants for inclusion in the PGAS system maintained in each Provincial Treasury. Accounting entries needed to bring receipts and expenditures incurred by Cash Offices into the PGAS system are described in Appendix II.

6.4.4 The Old Station Imprest Advance

Station Imprest Advances in operation by Cash Offices in a Province up until 31 December 1995 (Old Station Imprest Advance), must be acquitted to the Provincial Treasurer after all the anomalies are cleared by the advance holders. It is

important to note that the advance holder is an Accountable Officer for this very purpose and will continue to be so as long as he has not acquitted the advance held.

7. BANK ACCOUNTS

7.1 Provincial Government: New Bank Accounts and Functions

Each Provincial Treasury will maintain and manage three Bank Accounts for financial transactions in relation to grants, internal revenues and associated expenditures of a Provincial Government and national revenues collected in the province. The three bank accounts are:

- (i) Provincial Treasury Operating Account (in PGAS national database).
- (ii) Provincial Treasury Receiver of Public Moneys Account (in PGAS national database).
- (iii) Provincial Government Operating Account (in PGAS provincial database).

The above bank accounts shall function as under:-

(a) Provincial Treasury Operating Bank Account:

- (i) To receive all grants remitted by Waigani for Provincial and Local-level Governments (except staffing grant); and
- (ii) To receive CFC related cash from Waigani Public Account remitted on behalf of national departments and also moneys remitted for trust payments; and
- (iii) To remit the cash equivalent of the Local-level Government grants in accordance with warrant authorities; and
- (iv) To make payments for expenditures (i.e. issue cheques) against the Provincial Government grants, CFCs and trust moneys received for payment.

(b) Provincial Treasury Receiver of Public Moneys (RPM)

- (i) To receive and subsequently remit to Waigani Public Account any National Government revenues and National Trust Receipts collected in the provinces (except Internal Revenue Commission's collections of taxes and customs); and

- (ii) To remit such money due to the National Government in excess of K1,000.00 held in the above bank account to Waigani Public Account on daily or regular basis: and
- (iii) Moneys in the RPM Account are not to be spent by the Provincial Government as this represents revenues collected on behalf of the National Government.

(c) Provincial Government Operating Accounts:

- (i) To hold all deposits in relation to all Provincial Government internal revenues: and
- (ii) To issue cheques raised in relation to expenditures funded out of the Provincial Government internal revenue; and
- (iii) To hold any other deposit of moneys available to the Provincial Government.

7.2 Provincial Government Old Bank Accounts

7.2.1 Ceasing Operation of BMS Accounts

All bank accounts administered by the then Division of Finance and Administration or BMS for the National and Provincial Governments up to 31 December 1995 have ceased operation on that date.

7.2.2 Closure of BMS Bank Accounts

Provincial Treasurers are to reconcile those accounts up to date, and subject to all issued cheques being presented or becoming stale (which ever occurs first), clear all anomalies and close the accounts after which any balances in the BMS Operating Account. Station Imprest Advances, must be transferred to Waigani Public Account.

Failure to comply with the requirement to reconcile BMS accounts, to clear outstanding accounting entries and to close these redundant bank accounts will result in disciplinary action being initiated by the Department of Finance.

7.2.3 Clearance of Irregularities

Procedures for treating these anomalies are described in Appendix II (E) of this Part.

7.3 Local-level Government New Bank Accounts and Functions

Each District Treasury will maintain and manage two bank accounts for financial transaction in relation to grants, the internal revenues and associated expenditures of each Local-level Government in a District. The two bank accounts are:

1. Local-level Government Operating Account (in PGAS in Local-level Government Database).
2. Local-level Government General Account (in PGAS Local-level Government Database).

a) Local-level Government Operating Bank Account

- (i) To receive all grants remitted by Waigani for Local-level Governments except staffing grants, and
- (ii) To receive cash from the Waigani Public Account and other moneys remitted for trust payment; and
- (iii) To receive the cash equivalent of the Local-level Government grants in accordance with Warrant Authorities
- (iv) To make payments for expenditures (ie. issued cheques) against the Local-level Government grants available and trust moneys received for payment to the District Treasury.

b) Local-level Government General Bank Account

- (i) To hold all deposits in relation to all Local-level Government internal revenues; and
- (ii) To issue cheques raised in relation to expenditures funded out of the Local-level Government internal revenue; and
- (iii) To hold any other deposits of moneys available to the Local-level Government.

c) Local-level Government Bank Accounts - Cheque Signatories

- (i) The District Administrator and Council Executive Officer are the nominated officials designated to act as cheque signing officer and counter signing officer for payments drawn on the general bank account and operating bank

account for each Local-level Government. An alternate cheque signing officer may be nominated by the District Administrator and Council Executive Officer to carry out this function in their absence.

- (ii) Where Local-level Government cheques are generated automatically by the PGAS system, the computer generated cheques will be signed in accordance with standing bank authorisations held in the Provincial Treasury for the operation of this bank account.

7.4 Bank Reconciliations

7.4.1 Preparation and Remittance of Statements

After the end of each month, the Provincial Treasurer and District Treasurer must reconcile all the bank accounts under his control, prepare the appropriate reconciliation statement in the format prescribed by the Department of Finance, certify and forward such statements together with certified copies of Bank Statements and Cash Book Summary to reach Accounting Framework and Standards Division of the Department of Finance within 14 working days of the succeeding month.

Certified copies of the bank reconciliation must be made available to the Provincial Administrator, Auditor General's Office and Chief Inspector (Finance).

The Provincial Treasurer will be held responsible for any failure to comply with these reporting requirements.

8.0 STATEMENT OF ACCOUNTS

8.1 Monthly Statements

It is mandatory for Provincial and Local-level Governments to furnish monthly statements of accounts for:

- * grant related expenditure
- * expenditures for other Cash Fund Certificates
- * National Government revenues collected in the Province and the Local Government area
- * Trust Receipts and Payments

Information needed to compile monthly statements of accounts may be extracted from the Accounts Source Listing generated by the PGAS computer system. The monthly account listing for the Provincial Government and each Local-level Government must be collected by the Provincial Treasurer, for on forwarding to the Accounting Framework and Standards Division of the Department of Finance within 7 working days of month end.

8.2 Contents and Accuracy

These statements should incorporate transactions from the Provincial Government, Local level Governments and the cash offices as well as duly verified and checked by the Provincial Treasurer.

The Provincial Treasurer will be held responsible for furnishing Statements of Account and any failure to comply with these reporting requirements will constitute negligence in the performance of his assigned duty and may lead to disciplinary action as provided under his contract of employment.

9.0 ANNUAL ACCOUNTS

9.1 Legal Requirements

Section 114 (1) of the Organic Law requires each Provincial Government and Local-level Government to submit its full statement of the financial position and of the affairs of the Province and Local-level Government for each fiscal year in such a form and detail required by the Department of Finance for reporting to the National Parliament.

9.2 Financial Reporting Requirement

Provincial and Local-level Government are required to produce and report on their respective annual accounts in accordance to Section 10 of the Public Finances (Management) Act.

9.3 Audit requirement

Annual financial statements produced by Provincial and Local-level Governments will be examined by the Auditor General and an audit opinion issued in respect to this financial statement. In accordance with Section 117 (8) of the Organic Law, copies of audited financial statements must be sent to the National Economic and Fiscal Commission to satisfy each reporting requirements.

10. PAYROLL AND PAYMENTS

10.1 For Public Servants and Teachers

Salaries and Allowances including gratuity due to public servants and teachers will be paid out of funds appropriated under the Staffing Grant which is centrally held and retained at Waigani. Warrants will be issued from Waigani to payroll processing centres for salaries costs, allowances, and gratuity payments and the equivalent cash remitted for payment by these centres.

10.2 For Non-Public Servants

Salaries and Allowances of Non-Public Servants employed by Provincial Governments and Local-level Governments not part of nor included in the Staffing Grant and must be funded separately by the employing government from the internally generated revenue of the Province or Local Government. It is illegal to use part of the Staffing Grant for paying salaries or wages of such employees.

11. NATIONAL TRUST ACCOUNTS IN THE PROVINCES

11.1 Trust Fund

The Trust Fund is part of the Public Account as stipulated under Section 10 of the Public Finances (Management) Act. The Trust Fund consists of a number of Trust Accounts established under Section 15 of the Act, National Trust Accounts may be established by the Minister responsible for finance matters only. All public moneys are payable into either the Trust Fund or the Consolidated Revenue Fund depending on the nature of the receipt.

11.2 Establishment

Where a Provincial or Local-Level Government needs to establish a National Trust Account, a written submission to the Minister for Finance and Treasury to this effect, is required through the office of the Secretary for Finance for consideration and approval. The submission should include the following salient points:-

- a) Special advantages in opening and operating the trust account.
- b) Purposes and specific objects for which the trust account and moneys will be used.
- c) Sources of the trust receipts (revenue).
- d) Name and designation of person authorised to operate the account.

11.3 Payments into Trust Accounts

Unless specifically authorised under an Appropriation Act, no transfer of funds should be made from the Consolidated Revenue Fund to the Trust Fund (Section 16.2 of the Act) except as provided for in Section 16 (1) (d) of the Act. Other sources of revenue into any trust account are listed under Section 16 (1) (a, b & c) of the Act.

11.4 Payments Out of Trust Accounts

Section 17 of the Act prohibits moneys to be paid out of any trust account unless it is for the purpose of the account or as authorised by law and/or sufficient credit is available in the account.

Other provisions for the management, administration and control of the trust fund are detailed in Section 18 to 21 of the Act.

11.5 Reporting on Trust Accounts

For every National Trust Account operated by the province, the Provincial Treasurer must submit monthly statements of trust receipts and payments, related cash book summary and reconciliation statements to reach Accounting Framework and Standards Division within 14 days from the end of the month.

APPENDIX I - CHART OF ACCOUNTS - EXPENDITURE AND REVENUE CODE STRUCTURE:

1 Expenditure Code Structure

1.1 Below is how expenditure code structures for provinces will look:-

DIVISION	DIVISION	DIVISION
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INDICATOR	DISTRICT	DISTRICT	LLG
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GRANT NO.	FUNCTION	ACTIVITY/PROJECT	ACT/PROJECT
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ITEM	ITEM	ITEM	DONOR CODE
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Legend:

Division = a 3-digits Provincial code for national accounts in the national database (e.g. 281)

Indicator = a 1-digit index for the nature of expenditure: 1 for Recurrent Expenditure and 2 for Development (Project or PIP) Expenditure.

District = a 2-digits District/Electorate index (e.g. 01 for district one, 02 for two etc. and 10 for Provincial Head Quarters).

LLG = a 1-digit Local-level Government index (e.g. 2, 3 etc for LLG two and three respectively).

Grant Type and Nos. = 1 digit code:-

Administrative Support Grants (Section 91(1) (a) in accordance with Section 92 of the Organic Law). The indicated numbers shall apply:

- 1 Provincial & Local-level Government Administration Grant (Section 92; calculated and applied as per Schedule 2)
- 2 Provincial and Local-level Staffing Grant (Section 92; calculated and applied as per Schedule 2).

Development Grants (Section 91(1) (b) in accordance with Section 93 of the Organic Law):

(A) Provincial Infrastructure Development Grant (Section 93 at base of 100%; calculated and applied as per Schedule 3)

3 Provincial Social Services and Administrative Infrastructure (comprising 50% of base figure)

3 Provincial Land and Other Physical Infrastructure Development Grant; (comprising 50% of base figure)

(B) Local-level Government & Village Services Grant (Section 93 at base of 100%, calculated and applied as per Schedule 5)

4 Local-level Village and Social Services Development Grant; (comprising 50% of base figure)

4 Local-level Land and Other Physical Infrastructure Development Grant (comprising 50% of base figure)

(C) Town and Urban Services Grants

Section 91 (1) (c) in accordance with Section 94 of the Organic Law at base figure of 100%; (calculated and applied as per Schedule 4)

5 Town and Urban Social Service Infrastructure Development Grant; (comprising 50% of base figure)

5 Improvement to General City Services Grant comprising 50% of base figure

(D) Economic Grants (Section 91(1) (d) in accordance with Section 97 of the Organic Law; calculated and applied as per Schedule 6)

6 Derivation Grants

7 Special Support Grants (SSG) and Mining Agreements.

(E) Other Economic Support Grants

8 District Support Grant (Rural Action Programme)

9 Others: Loans, Aid, etc. through the National Government

Function = 1 digit:

1 Administration

2 Health

- 3 Economics
- 4 Education
- 5 Law and Order
- 6 Infrastructure
- 7 Community Services
- 8 Reserved
- 9 Others

Activity = a 2 - digits code

Item = a 3 - digits standard expenditure item code: the 4th being a digit for donor code if any.

2 Revenue Account Codes Structure:

2.1 National Revenue codes Structure in the province's PGAS National Accounts Database:

Rev-Head	Rev-Head	Rev-Head	Division	Division	Division
Sub-Head	Sub-Head				

Legend:

Rev-Head = a 3 - digits Revenue Heads (e.g 113 (National Head) or 601 (Provincial Head))

Division = a 3 - digits Divisional/Provincial index (e.g 283 (national database) or 783 (provincial database)).

Sub-Head = a 2- digits Sub-Head of Revenue (e.g 01)

2.2 Provincial Internal Revenue codes Structure in the province's Provincial Accounts Database in PGAS:

Rev-Head	Rev-Head	Rev-Head	District	District	LLG
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Sub-Head	Sub-Head
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(For details of revenue classification, see Appendix II of this Part)

Legend:

District = a 2 - digits District index (District code from where the revenue originates).

LLG = a 1 - digit Local-level Government (where the revenue originates).

**APPENDIX II - ACCOUNTING FOR GRANTS AND INTERNAL REVENUES:
DOUBLE ENTRY IMPLICATIONS****A. NATIONAL GOVERNMENT ACCOUNTING TREATMENT OF GRANTS
BY WAIGANI****1. Remittance of Grants to Province**

On receipt of the cashflow statements and subject to the availability of cash, Waigani Public Account will remit cash equivalent of the Warrant Authority to the Provincial Treasurer and such transaction will be treated by Waigani as follows:-

Dr: The respective Grant Expenditure Account

Cr: Waigani Public Account Cash Book Code

2. Remittance of CFC Cash and Trust Fund for payments to Province

Waigani shall remit all CFC related cash on behalf of National Departments for expenditure and cash for Trust payments made in the Province. On remittance, the following entry shall be made by Waigani:

Dr: Provincial Treasury Operating Trust Account

Cr: Waigani Public Account

(These entries are made at Waigani and not at the Province)

**B. PROVINCIAL TREASURY- NATIONAL GOVERNMENT ACCOUNTING
TREATMENT OF NATIONAL GOVERNMENT GRANTS BY
PROVINCIAL TREASURY**

Confirm that the National Government grant amount is actually in the Provincial Treasury Operating Bank Account. Then issue an official receipt, crediting the provincial government grant revenue code. The double entry treatment will be as follows:-

(i) Dr: Cash. (ie. Provincial Treasury Operating Cash Book code (eg. Gulf - 32 - 114)

Cr: Provincial Government Grant Revenue Code.

(This entry is to be made in the National database in PGAS)

**TREATMENT OF PROVINCIAL EXPENDITURE OUT OF NATIONAL
GOVERNMENT GRANTS**

- (i) Grants released to provinces will be held in the Provincial Treasury Operating Bank Account and spent in accordance with the provincial expenditure plan. Accounting for payments will be as follows:-

Dr: Provincial Government Grant Expenditure Vote.

Cr: Cash. (Provincial Treasury Operating Account Cash Book Code)

- (ii) Receipt of CFC cash and Trust Payments cash from WPA:

Dr: Cash Book Code (Treasury Operating Bank Account)

Cr: Provincial Treasury Operating Trust Code

- (iii) Payment of trust moneys received for payments:

Dr: Trust Payment Account

Cr: Cash Book Code (Treasury Operating Bank Account)

(The above entries are to be made in the National database in PGAS)

C. PROVINCIAL TREASURY - PROVINCIAL GOVERNMENT ACCOUNTING INTERNAL REVENUE AND RELATED EXPENDITURE

- (i) Internal Revenue

Accounting entries for Provincial Government internal revenue by the Provincial Treasury will be as follows:

Dr: Cash (Provincial Government General Account Cash Book Code).

Cr: Revenue head (Provincial Government).

(This entry is made in the Provincial database in PGAS)

- (ii) Internal Revenue Related Expenditures

Expenditures out of internal revenue will be taken up in the book as follows:-

Dr: Expenditure Vote. (Provincial Government)

Cr: Cash. (Provincial Government General Account Cash Book Code).

(This entry is required in the Provincial database in PGAS)

D. PROVINCIAL TREASURY - LOCAL-LEVEL GOVERNMENT ACCOUNTING

TREATMENT OF LOCAL-LEVEL GOVERNMENT GRANTS

- (i) Confirm that the Local-level Government grant amount is actually in the Provincial Treasury Operating Account. Then issue an official receipt, crediting the Local-level Government grant revenue code. The double entry will be as follows:

Dr: Cash. ie. Provincial Treasury Operating Cash Book Code (eg. Gulf - 32 - 114)

Cr: Local -level Government Grant Revenue Code.

(This entry is to be made in the National database in PGAS)

TRANSFER OF LOCAL-LEVEL GOVERNMENT GRANTS

- (ii) On the basis of the Warrant Authority, the Provincial Treasurer will issue and deposit a cheque to the bank account of the Local-Level Government. The account to charge is the Local-level Government Trust Clearing Account. The double entry will therefore be as follows:-

Dr: Local-level Government Trust Clearing Account

Cr: Cash (i.e. Provincial Treasury Operating Account Cash Book Code e.g for Madang, it is 32-61)

(This entry is to be made in the National database in PGAS)

RECEIPT OF LOCAL-LEVEL GOVERNMENT GRANTS

- (iii) The Provincial Treasurer will confirm Local-level Government grants were deposited into the operating bank account for the Local-level Government and raise the following journal entry to record this cash transfer.

Dr: Cash - Local-level Government Operating Bank Account

Cr: Grant Revenue - Local-level Government Grant Revenue Code

(This entry is to be made in the Provincial database in PGAS)

TREATMENT OF LOCAL-LEVEL GOVERNMENT EXPENDITURE OUT OF NATIONAL GOVERNMENT GRANTS

- (i) Grants released to Local-level Governments will be held in the Local-level Government Operating Bank Account and spent in accordance with the expenditure plan for the Local-level Government. Accounting for payments will be as follows:-
- (ii) National Government grants spent by Local-level Governments will require the following entry in the National Database in PGAS.

Dr. Local-level Government Expenditure Code

Cr. Local-level Government Clearance Account

- (iii) The Provincial Treasurer will need to enter this expenditure data into the Local-level Government database in PGAS. The required entry is as follows:

Dr. Local-level Government Expenditure Codes

Cr. Cash - Local-level Government Operating Account

TREATMENT OF LOCAL-LEVEL GOVERNMENT INTERNAL REVENUE AND RELATED EXPENDITURE

- (i) Internal Revenue

Accounting entries for Provincial Government internal revenue by the Provincial Treasury will be as follows:

Dr: Cash (Local-level Government General Account Cash Book Code).

Cr: Revenue head (Local-level Government).

(This entry is made in the Local-level Government database in PGAS)

- (ii) Internal Revenue Related Expenditures

Expenditures out of internal revenue will be taken up in the books as follows:-

Dr: Expenditure Vote. (Local-level Government)

Cr. Cash. (Local-level Government General Account Cash Book Code).

(This entry is required in the Local-level Government database in PGAS)

TREATMENT OF EXPENDITURE REPORTS FROM LOCAL-LEVEL GOVERNMENTS ON GRANTS

District Treasuries are to periodically furnish listings (itemising expenditure outlays) of all expenditures incurred from all National Government grants and internal revenue of the Local-level Government and forward this information to the Provincial Treasury.

On receipt of expenditure reports by the Provincial Treasury, these will be journalised into PGAS. The entries will be as follows:-

(i) LLG Expenditures from Grants

Dr: LLG Grants Expenditure Votes.

Cr: LLG Clearance Trust Account

(This entry is made in the National database in PGAS)

(ii) LLG Expenditures from Grants

Dr. LLG Grants Expenditure Votes

Cr. LLG Operating Account Cash Book

(This entry is made in the Provincial database in PGAS)

(iii) LLG Expenditures from Internal Revenue

Dr. LLG Grants Expenditure Votes

Cr. LLG Operating Account Cash Book

(This entry is made in the Provincial database in PGAS)

These accounting entries are fully described in earlier paragraphs of this section of the finance procedure manual.

E. DISTRICT TREASURY - LOCAL-LEVEL GOVERNMENT ACCOUNTING

TREATMENT OF LOCAL-LEVEL GOVERNMENT GRANTS BY DISTRICT TREASURY

Confirm that the Local-level Government grant amount is actually in the Provincial Treasury Operating Account. A Cash Fund Certificate is issued by the Provincial Administrator detailing the itemise expenditure budget for the LLGs.

(i) Dr. Cash. (LLG General Account)

Cr. Revenue Head (LLG Grants)

(This entry is to made in the LLG database in PGAS)

TREATMENT OF EXPENDITURE REPORTS FROM DISTRICT TREASURIES AND CASH OFFICES

Periodically, District Treasuries and Cash Offices are to furnish listings (representing itemised information on revenue and expenditures) of all revenues and expenditures incurred from all grants advanced to the District Treasury and on receipt of the reports, the Provincial Treasury will bring the revenue and expenditure to account in PGAS through the journal entries described in this manual.

F. REVENUE ACCOUNTING.

Provincial and District Treasurers are to ensure appropriate accounting and recording are maintained by the Receiver and all Collector of Public Moneys for all levels of government revenues- i.e.: National, if any, Provincial and Local-Level Government revenues to the appropriate revenue Heads.

In respect of the national revenue or trust receipts (if any) on behalf of the national government, the procedures are as follows:-

(i) Cash Offices

Collect and receipt the revenue or trust moneys. At the end of day, bank or put in safe custody the collected cash. Compile a Collector's Statement and make a return (including the collected cash) to the designated Receiver of Public Moneys. Apart from these records, no other accounting entries for revenues are required at the cash office level.

(ii) District Treasury

Obtain Collector's Statement from Cash Offices and confirm the correctness of revenue and trust moneys shown in the statement. After verifying the correctness of the collector's statement and receiving cash from the cash office, bank the cash and make an appropriate journal entry as follows:

Dr. LLG Treasury Bank Account

Cr. Respective Revenue Votes

(iii) Provincial Treasury

On receipt of monies for National Government revenues, Internal Revenues of the Provincial Government, the Provincial Treasury office will bank the cash proceeds and make an appropriate journal entry as follows:

Dr: Prov. Treasury, RPM Cash Account Code

Cr: Respective Revenue Vote

If the documents relate to Receipts of Trust Collections by the Provincial Treasury Office, the entry is as under:

Dr: RPM Cash Book Code

Cr: Trust Receipt Account

The same requirement and accounting entries are applicable to revenues collected at the Provincial Treasury.

(These entries are to be made in National database in PGAS)

Note It is important to note that deposits into the RPM Account of revenue and trust receipts are not for spending by the provinces. The amounts in this account must be regularly remitted to the Waigani Public Account.

(iv) Provincial Government

For Provincial and Local-Level Government revenue, the collection procedure and accountability for revenues collected at the cash office or Headquarters, are the same as above, except that internal revenue may be applied toward activity described in the provincial expenditure program. The accounting entries at the Treasury are:

Dr: Provincial Government Operating Account Cash Book

Cr: Provincial Government Revenue Vote Code.

(This entry is made in the Provincial database in PGAS)

REMITTANCE OF NATIONAL REVENUE AND TRUST RECEIPTS COLLECTED TO WAIGANI

National moneys collected in the provinces *must* be periodically remitted to the Waigani Public Account (WPA) by the Provincial Treasury. The following entries apply:

(i) Remittance by the Province to WPA

Dr. RPM Clearance Trust Account

Cr. RPM Cash Book Code

(This entry is made in PGAS national database)

(ii) Waigani's treatment of receipt of remitted moneys to WPA

Dr: Waigani Public Account

Cr. RPM Clearance Trust Account

(This entry is made by Waigani only).

Details of Revenue Classification

Revenue Head		Revenue Sub-Head	Revenue Description
National	Provincial		
	601	1	Provincial Government Taxes & Fees
		2	Sales and Service Tax
		3	Fees for the licensing of places where intoxicating liquor is sold.
		4	Fees for licenses to operate or carry on gambling, lotteries and games of chance.
		5	Developed property tax.
		6	Motor Vehicle registration licenses.
			Provincial road-users tax
	602	1	Court Fees and Fines Court Fees and Fines
	603	1	Other Taxes, Charges, etc. Taxes, Fees or Charges imposed under Provincial Law
		2	Taxes, Fees or Charges imposed under Local-level Law.
113		1	Administration Support Grants Provincial and Local-level administration grant
		2	Provincial and Local-level staffing grant
		3	Other conditional support grants in accordance with Section 95

Revenue Head		Revenue Sub-Head	Revenue Description
National	Provincial		
114		1	Development Grant Provincial infrastructure development grants.
		2	Local-level Government and Village Services grants.
		3	Other support grants in accordance with Section 95.
116		1	Town and Urban Service Grants Town and Urban Services Grants
		2	Other support grants in accordance with Section 95
127		1	Other Conditional Complimentary Support Grant Provincial Government
		2	Local-level Government
129		1	Derivation Grants Provincial Government
		2	Local-level Government
131	631	1	Benefits derived from Natural Resources Provincial Government
		2	Local-level Government
		3	National Government
133	633	1	Sharing of National Government Incomes Provincial Government
		2	Local-level Government
137	637	1	Receipts from Loans and Borrowings Provincial Government
		2	Local-level Government

Revenue Head		Revenue Sub-Head	Revenue Description
National	Provincial		
138	638		Local-Level Government Taxes and Fees
		1	Community Services Taxes, Fees and Charges
		2	Taxes on Public entertainments for which admission is charged and on places kept for the purposes of such entertainment.
		3	Fees for licenses for general trading
		4	Domestic animal license Fees
		5	Corporation and personal Head Tax
139	639		Miscellaneous Revenue
		1	Recovery from former year's appropriation
		2	Sale of products
		3	Electricity charges - Minor Power Houses