

## **PART 22 – FINANCIAL MANAGEMENT OF DONOR FUNDED PROJECTS**

### **1. Introduction**

- 1.1 Section 34 of the Act provides that advances of Government contributions to donor-funded projects may be transferred to Trust Accounts in accordance with the provisions of the Act.
- 1.2 Some Loan Agreements and Memoranda of Understanding between the Government of Papua New Guinea and aid agencies specify that an imprest, trust, or special account shall be established for donor funds.

### **2. Definition of Accounts**

#### **2.1 Trust Accounts:**

Section 15 of Public Finances (Management) Act 1995 provides that Trust Accounts may be established as directed by the Minister to receive moneys held by the State as trustee. Section 16 provides that:

- all moneys paid by any person for the purposes of the account, and
- amounts appropriated as government's contribution to a project, which is partly funded by an international agency, whether by way of loan or grant, shall be paid to the credit of a Trust Account.

#### **2.2 Imprest Account:**

This is a revolving account for the deposit of loan or grant proceeds to make payments in respect of certain project expenditures. It may be held at an approved bank, Bank of Papua New Guinea, or other financial institution.

#### **2.3 Special Account:**

This is a revolving account funded by IBRD with an advance from an IBRD loan held at an approved bank.

### **3. Planning and Budgeting**

- 3.1 Projects are subject to normal government planning and budget processes. Total costs - whether government funded or donor funded and costs paid in Papua New Guinea, paid offshore, or paid directly by the donor-agency must be included in the budget.

- 3.2 Items of expenditure covered by loan agreements and memoranda of understanding must be clearly identified on budget submission forms. Loan agreements and memoranda of understanding often provide for direct payments from donors to suppliers. Amounts intended to be paid in this manner ("direct" payments) must also be included in budget estimates.
- 3.3 All estimated expenditure amounts must be entered under the appropriate item of expenditure, identified by financing source. The percentage of each item that is reimbursable or paid by a donor must be calculated and clearly included in the budget documents.
- 3.4 For a given fiscal year, total donor-funded expenditure that is appropriated in the budget must be matched on the revenue side.
- 3.5 Direct payments made by donors must be appropriated under the relevant expenditure votes.
- 3.6 Donor codes are entered after each line item. When entering the donor agency code, care must be taken to include the correct code number to indicate the source of funds:
  - 0 - Government
  - 1 - Asian Development Bank
  - 2 - World Bank
  - 3 - European Union
  - 5 - JBIC
  - 6 - KfW
  - 7 - IFAD
  - 8 - AusAID
  - 9 - Other e.g EIB, NZ, GTZ, EDCF, etc
- 3.7 It is very important that the correct vote number and donor code are used because errors at this stage will produce incorrect reports in the General Ledger and the Planning and Budgetary System.

#### **4. Funds Flow Projections**

- 4.1 After the budget is approved, each project coordinator/manager will submit to First Assistant Secretary, Planning, Department of National Planning and Monitoring, funds flow projections for the financial year which are to be revised quarterly.

The funds flow projections will show:

- (a) each budget line item appropriated;

- (b) relevant donor code for each line item appropriated;
  - (c) budget appropriation by expenditure item representing financing contribution from GoPNG and donor agencies;
  - (d) funds flow needs on a monthly basis.
- 4.2 The project co-ordinator must complete one funds flow worksheet for each source of funding, including:
- (a) Government of PNG
  - (b) Donor funding paid directly into Imprest/Special account
  - (c) Donor funds paid directly to suppliers and contractors by donor
  - (d) Plus a summary funds flow worksheet showing financial contributions flowing from all sources.

The summary fund worksheet should reflect the total financial contribution that equals the budget appropriation.

- 4.3 Department of National Planning and Monitoring will promptly review and forward copies of the funds flow projections to:
- (a) Department of Treasury - Budget Division and,
  - (b) Department of Treasury – Financial Evaluation Division
- 4.4 It is essential that this procedure is followed carefully for the correct and timely transfer of Government of PNG funds into the respective bank accounts.

## **5. Creation of Accounts**

### **5.1 Imprest and Special Accounts**

- (a) Department of Finance will approve an imprest or special account through a trust instrument. One account is permitted for each loan or grant and opened by project manager in agreement with the donor agencies. In exceptional circumstances, a donor and the Go-PNG may agree to establish one imprest account per department. The accounts may be held at a commercial bank, the Bank of Papua New Guinea, or other financial institution.

The accounts will be styled: [name of donor] [name of project] [Imprest of Special] Account.

- (b) There must be at least two signatories for each withdrawal or cheque. Approved signatories and alternates will be designated in the relevant trust instrument. The signatories will often include the agency head with one or two alternates being project-related staff such as the project manager, coordinator or accountant.
- (c) The initial deposits and replenishments of the imprest and special accounts will be the responsibility of Department of Treasury – Financial Evaluation Division for loans and by the Department of National Planning & Rural Development - Foreign Aid Management for grants.

## **5.2 Trust Accounts**

- (a) One trust account will be established for each project. The Department of Finance must approve the account through a trust instrument. The accounts may be held at a commercial bank or the Bank of Papua New Guinea.
- (b) The accounts will be styled: Government of Papua New Guinea Funds [name of project] Trust Account.
- (c) There must be at least two signatories for each withdrawal/cheque. Approved signatories and alternates will be designated in the relevant trust instrument. The signatories will often include the agency head with one or two alternate names plus project - related staff such as project manager, coordinator or accountant.

## **5.3 Transfer of Government Funds**

When Cash Warrant Authorities are received in the executing or implementing agency: The agency will:

- (a) complete CFCs, FF3s, and FF4s to commit funds,
- (b) raise cheques to the project trust accounts,
- (c) deposit cheque into appropriate account, and
- (d) send a copy of the bank deposit slip to DOF – Expenditure and Cash Management Division

In conformity with Section 34 of the Act, the government will transfer its contribution into the account according to projected funds flow requirements when funds are released by Warrant Authority.

## 5.4 Subsidiary Bank Accounts

- (a) Occasionally, subsidiary accounts may be approved by the Department of Finance when the project design and the donor and government of PNG agree that the best mechanism for funding is:
  - (i) with one donor Imprest/Special account and one Go-PNG trust account held at the department level with subsidiary accounts held for each project in that department, or
  - (ii) a project with one Imprest, Special and/or trust account requires accounts in provinces, districts, or local levels.
- (b) The accounts will be styled: [Government of Papua New Guinea] or [donor name] Subsidiary Account for [name of project] at [location or other identifier].
- (c) There must be at least two signatories for each withdrawal or cheque. Approved signatories and alternates will be designated in the relevant trust instrument. The signatories will often include division or section heads with one or two alternates named plus project related staff such as project manager, coordinator or accountant.
- (d) Transfer of funds to the subsidiary account will be made only from the respective Imprest/Special or trust account. Transfers will occur when the operating account manager satisfactorily completes the funds flow projection or acquittals of expenditure and submits them to the staff managing the 'parent' account.

## 6. Operational Procedures for Donor Funded Imprest Accounts

To ensure that donor projects are both properly managed and accounted for by the Department of Finance, it will be mandatory for administering agencies to comply with the procedures that are described below.

- 6.1 Administering Agencies and Project Managers in consultation with System Administrators of the respective PGAS sites and the Management Information System Division, Department of Finance, shall ensure that Cash Books and Trust Codes are created in the PGAS Chart of Accounts for donor funded imprest accounts.
- 6.2 Administering Agencies and Project Manager shall ensure that all procurement procedures are observed when releasing payments from Imprest Accounts. At the time of procurement, Project

Managers should have identified the type of expenditure taking place (e.g. purchase of capital assets, procurement of goods and services and travel). This is necessary to enable Journal Entries to be raised at a later stage.

- 6.3 As required under provisions of the Public Finances (Management) Act, normal commitment, examination, certification and authorisation processes shall be performed and the transaction entered into the PGAS system.
- 6.4 The cheque is then processed for the supplier through the system against the trust fund account code. All documents pertaining to the cheque must be properly kept and attached to the journal entry when it is raised.
- 6.5 Raise the Journal Entry on the PGAS system, by performing the following accounting entry.

<b>Project Expenditure Votes</b>	<b>Dr</b>
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<b>Trust Fund Account Code</b>	<b>Cr</b>
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- 6.6 All cheques associated with project expenditure will be processed through the PGAS system. Project managers in consultation with the Information Technology Division, Department of Finance will liaise with the suppliers to ensure that all cheque stationeries are available.
- 6.7 Administering agencies and project managers shall ensure that a **Non-Cash Warrant Authority** has been issued by the Budgets Division of the Department of Treasury and then entered in the PGAS system. Similarly, a **Non Cash CFC** should also be raised and entered in the PGAS system for purposes of posting the required journal entries.

No commitments shall be made against the non cash warrant authority and cash fund certificates (CFC).

- 6.8 In Agencies where more than one project has been funded by a donor agency, it will be necessary to issue separate Cash Fund Certificates with unique CFC Holder numbers in order to identify each donor funded project.
- 6.9 When the journal entry is keyed into the PGAS system, expenditures incurred in relation to the donor-funded project will be recorded in the system.
- 6.10 Two (2) copies of the Expenditure Vote Summary and the Bank Reconciliation Statement of Imprest Accounts should be forwarded to the First Assistant Secretaries (Financial Evaluation Division &

Expenditure and Cash Management Division). This information will assist the FAS (FED) to determine drawdowns made and replenishments required for each imprest account.

- 6.11 At the time of replenishment made into the imprest bank account, the following accounting transaction with the equivalent amount shall be entered into the system, In the PGAS system:

<b>Trust Account Cash Book Code</b>	<b>Dr</b>
<b>Trust Account Code</b>	<b>Cr</b>

- 6.12 Implementing agencies will send to Department of Treasury, Financial Evaluation Division, a copy of the bank deposit slip, Payment Advice or other proof or information concerning the deposit of donor funds to the Imprest and Special Account.

## **7. Advances of Donor Funds**

- 7.1 Advances of donor funds to the Imprest and Special accounts will be actioned for the implementing and executing agencies by Financial Evaluation Division of Department of Treasury on behalf of the bilateral and multi-lateral donors.
- 7.2 The Imprest and Special accounts will be funded as specified in the respective project's Loan Agreements or Memoranda of Understanding of Exchange of Letters by either:
- (a) the specific amounts set and replenished when the executing and implementing agency completes a withdrawal application or an acquittal form (AusAID), or
  - (b) the upcoming four to six months needs based on the funds flow projections submitted by the implementing/executing agencies.

## **8. Reporting**

- 8.1 **Each month by the 14th calendar day after month's end,** project staff at the executing and implementing agency are responsible to complete:
- (a) Bank Reconciliation
  - (b) Statements of Expenditures
- 8.2 Bank Reconciliation - Project manager will:
- (a) complete one Bank Reconciliation for each trust account

- (b) complete one Bank Reconciliation for each imprest/Special account
- (c) submit a copy of the bank reconciliation and ledger/cash book to:

Department of Treasury – Financial Evaluation Division and  
Department of Finance – Expenditure and Cash Management  
Division.

8.3 Statement of Expenditures - Project manager will:

- (a) Donor Expenditure - complete one Statement of Expenditure form for each loan agency category according to the loan agreements, memoranda of understanding and donor guidelines.
- (b) Donor and Government Expenditures - attach a copy of the project account ledgers that clearly summarise GoPNG budget item numbers (for both GoPNG and donor expenditures), or complete a Statement of Expenditure that summarises the expenditures by GoPNG expenditure item numbers.

All records for projects implemented are to be kept for inspection by Department of Treasury.

8.4 Implementing and Executing Agency project staff will complete a loan withdrawal form or acquittal form for each set of Statements of Expenditure on an as needed basis, or as agreed with donors in relation to individual projects.

8.5 Project staff will furnish to Department of Treasury – Financial Evaluation Division (for loans) or Department of Finance – Expenditure and Cash Management Division.

- (a) Bank Reconciliation Statement,
- (b) Statement of Expenditures,

8.6 The respective Financial Evaluation Division or Public Accounts Staff will:

- (a) review the reports for accuracy (examine the correctness of the payments by reference to the relevant loan agreement and the accompanying documents),
- (b) send the original Trust Account Reconciliation form to Accounting Framework and Standard Division, Trust Section,

- (c) retain copies of the Imprest/Special Account bank reconciliation forms, Statement of Expenditures, and Loan Withdrawal/Acquittal forms, and
- (d) send the Loan Withdrawal or Acquittal forms to the appropriate donors for replenishment of the imprest/special accounts with the Statement of Expenditures and any required supporting documentation.

8.7 Direct Payments by Donors:

- (a) Donors will report all direct payments to Financial Evaluation Division
- (b) Financial Evaluation Division (LRD) will complete all JE forms by item and donor code
- (c) LRD will forward FF8s to accounting section for input into the system

8.8 Subsidiary Bank Accounts - **Each month by the 7th calendar day after month's end**, staff responsible for subsidiary accounts must complete and submit the same type of reconciliations and statement of expenditures as required and explained in Section 8.1 through 8.3 above. The reconciliations and statement of expenditures are sent to the office holding the 'parent' Imprest, Special or trust account so they are received by the 7th calendar day of each month.

When the monthly general ledger (TMS) reports are received, the executing agency must check and reconcile the Imprest and Special accounts. Specifically, review reports TMS 631, TMS 282, and TMS 720 to ensure that transactions were posted correctly.