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PAPUA NEW GUINEA

PUBLIC EXPENDITURE AND FINANCIAL ACCOUNTABILITY ASSESSMENT

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**This Report comprises a Public Financial Management Review of Papua New Guinea
using the Public Expenditure and Financial Accountability (PEFA) Framework.**

PREFACE

At the request of the authorities of Papua New Guinea, a technical assistance mission from the Fiscal Affairs Department (FAD) visited Port Moresby during March 17 – April 2, 2015, to assist the Government to conduct a Public Financial Management Review by using the PEFA framework.

The mission comprised Eliko Pedastsaar, Ramon Hurtado and Bruno Imbert (all FAD), Richard Allen and David Shand (FAD experts) and Ron Hackett, a long-term PFM advisor in the PFTAC. The mission was financed by PFTAC. To help raise awareness of PFTAC's support, it would be appreciated if on appropriate occasions PFTAC's contribution to the mission could be recognized.

The mission team held extensive discussions with the government's PEFA self-assessment team, government officials, and other stakeholders. We would also like to thank Dr. Ken Ngangan, Acting Secretary and senior staff of the Department of Finance for their valuable support. The mission met senior officials and staff of the Department of Treasury, the Department of National Planning and Monitoring, the Department of Personnel Management, the Bank of PNG, the Departments of Education, Health and Works, the National Economic and Fiscal Commission (NEFC), the National Executive Council (NEC), the Auditor General's Office, the Independent Public Business Corporation (IPBC), and major donors in PNG. A full list of the persons met is provided in Annex 2 of the report.

The mission expresses appreciation to all officials for the warm welcome extended and for being available for open discussions, often at a short notice, and active participation in workshops. Special thanks are owed to Ms. Ruth Wainetti for her dedicated support and coordination of the work program of the mission and Mr. Chris Waiya and Mr. Paul Niaga for helping with the logistics.

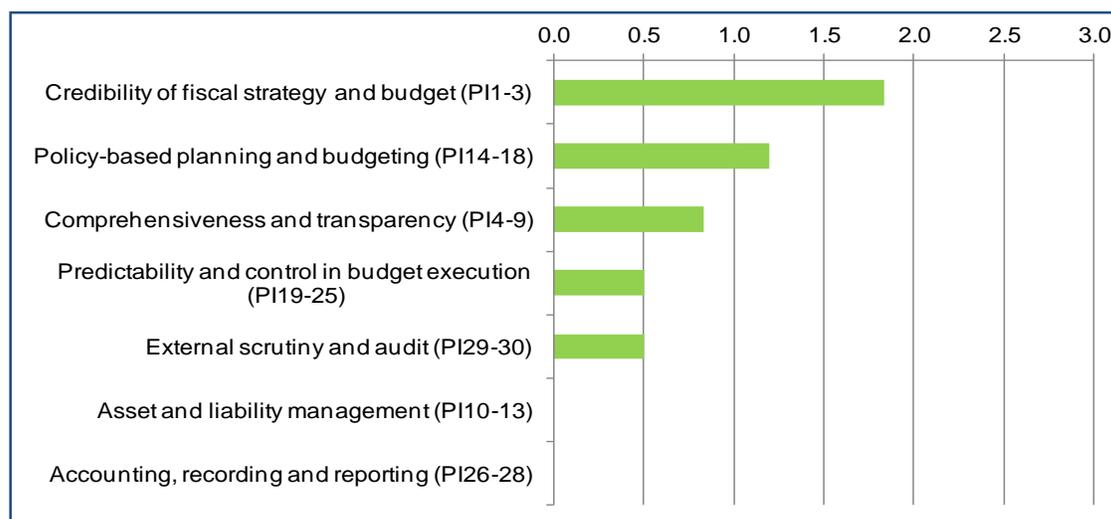
EXECUTIVE SUMMARY

1. **Previous PEFA assessments of PNG were carried out in 2005 and 2009.**¹ In 2014 the PNG Government launched an internal PEFA assessment with a national government team using the existing PEFA framework (January 2011). The present mission validated the PNG government's internal assessment, and also carried out a baseline assessment using the testing version of the revised (2015) framework.² The framework is composed of a set of 30 high level indicators, which measure the performance of PFM systems, processes and institutions. The indicators are organized around seven pillars, shown in Figure 1 below, representing core dimensions of PFM performance. The assessment focuses on the PFM systems and how well they work and is intended to provide a pool of objective information to assist all stakeholders understanding the current status of PFM and on decisions on future reforms. Such reforms will enable the Government to achieve improved overall fiscal discipline, a better allocation of resources through the budget, and greater efficiency in delivering public services. The assessment focused mainly on the central government. The data used for rating the indicators mainly covered the years 2011, 2012 and 2013.

2. **Overall PFM performance, as measured by the indicators grouped under the seven pillars, is mixed (Figure 1).** PNG scores relatively well on Pillar I – Credibility of fiscal strategy and budget. This score reflects the fact that the variance between the original budget and actual outturn at aggregate level was kept at a minimum, whereas the composition of expenditure by economic and administrative classification is substantial. PNG's performance also scores reasonably well on Pillar IV – Policy based planning and budgeting – and Pillar II – Comprehensiveness and transparency - which suggests that the budget preparation process supports the use of the budget as a policy tool and a wide variety of budget information is available. PNG's performance on other pillars, however, is weaker. There is considerable scope for improvement in accountability, one of the corner principles of good PFM (Pillars V and VII); the management of public assets, liabilities and associated fiscal risks (Pillar III); and the quality, availability, comprehensiveness and timeliness of fiscal accounts (Pillar VI).

¹ The 2009 assessment was not formally endorsed by the government and was not published.

² As defined in the *Performance Measurement Framework, upgraded January 2015, Testing Version* The methodology is available at the PEFA website: www.pefa.org

Figure 1. Average Performance by Seven Pillars ¹

¹ In calculating the average performance of pillars, a score "A" was considered equal to 3 and score "D" equal to 0. The step between A and D scores is 0.5

Credibility of fiscal strategy and budget

3. **The aggregate credibility of the budget appears satisfactory as overall deviations from the original budget estimates were relatively small, though expenditure composition shows a high level of variance.** There was a tendency for spending on wages and salaries, goods and services and other items of recurrent expenditure to be higher than the approved budget, and for spending on the development budget to be lower than the approved amounts. The under-spending in development expenditure was mainly due to capacity limitations, weak project implementation and possibly a lack of reporting on execution of donor-funded projects. Over-spending in the recurrent budget can be attributed to weaknesses in expenditure controls, including inadequate commitment controls, as discussed in more detail under Pillar V. The lack of data integrity is a big issue, both for aggregate and individual budget items, thus reducing the overall quality of financial reports.

Comprehensiveness and transparency

4. **Comprehensiveness and transparency in the budget could be improved.** The classification of the budget is reasonably robust, but two financial systems (IFMS and PGAS) used by the departments adopt different classifications which impacts negatively on the comprehensiveness and quality of data in the budget execution reports. The current budget presentation is insufficiently analytical and open to neither external scrutiny nor policy accountability. The extent of unreported government operations appears to be large, but given the number of entities involved and weaknesses of reporting, it is difficult to quantify. More comprehensive and timely reporting on the operations of the large number of statutory bodies and donor funds, and greater transparency

regarding trust accounts is needed. This would facilitate cash management and reduce the vulnerability of PNG to large but difficult to quantify fiscal risks.

Asset and liability management

5. **Public asset and liability management is one of the weakest areas in PNG's PFM system.** There are numerous statutory bodies fulfilling a range of commercial, social and regulatory functions together with 12 state-owned enterprises (SOEs) that are wholly-owned by the government. Many of these entities are several years in arrears in submitting their annual financial statements, and many have received audit disclaimers or adverse opinions. The preparation of capital budgets is fragmented, and needs to be further integrated with recurrent budgets. Few departments undertake rigorous economic analysis of proposed public investment projects or provide systematic reports on the physical and financial progress of these projects. The legal basis for borrowing and the issuance of government guarantees is unclear, fragmented and to some degree contradictory. As a result there are gaps in the coverage of reports and some loans might not be reflected in the system. No register of the guarantees issued by the government has been set up. There are also no mechanisms for recording and monitoring payment arrears.

Policy-based planning and budgeting

6. **PNG's budget process is orderly and well understood, and some progress has been made in embedding the medium-term dimension into fiscal planning.** The government prepares a broadly credible medium-term fiscal strategy (MTFS) comprising fiscal targets established in law. The MTFS is used to prepare an overall resource envelope for public expenditure and individual ceilings for spending agencies, but these ceilings are prepared for a single year only and do not cover half of the budget representing development/capital expenditure. The budget documents for 2015 contained a section describing revenue measures and developments, in which major changes in revenue policy were explained and costed. Typically Parliament has less than one month in which to consider the budget. Given this short time period, and the absence of an effective committee to review the draft budget proposal, the scope of legislative scrutiny is very limited.

Predictability and control in budget execution

7. **The control of budget execution is weak.** PNG's main revenue collecting agencies, the Internal Revenue Commission (IRC) and the Customs Service, collect about 96 percent of PNG's domestically generated revenues. Although cash is transferred to the Waigani account (which comprises some elements of a treasury single account) on a weekly basis, bank reconciliations are a major problem, with long backlogs for some accounts. A cash flow forecast is prepared for the fiscal year, and is updated weekly on the basis of actual inflows and outflows. Departments are advised one month in advance of their monthly warrant ceilings, but the information is not fully reliable. The current rules allow extensive administrative reallocation with Treasury approval and are not always respected. Payroll controls are weak, and are compromised by the decentralization of responsibility for controls and reconciliations to the spending departments and provinces. Non-compliance with internal control regulations, numerous reallocation decisions and delays in

implementing the IFMS further impede the ability of the government to implement the budget as originally approved.

Accounting, recording and reporting

8. **There are concerns regarding the persistent lack of reliability of accounting records.**

Many bank reconciliations are not carried out in a timely manner, and backlogs arise in the clearance of suspense accounts and advances. Even if reconciliations are completed, there are many significant unresolved items. While the government prepares different types of in-year reports, the coverage and classification of data do not allow direct comparison to be made with the original approved budget and the information is not up-to-date. No recognized accounting standards are used to prepare central government financial statements. The financial statements are only submitted for audit 15-16 months after the end of the year concerned, compared to the good practice standard of 3-6 months. The quality and timeliness of the annual financial statements have been criticized by the Auditor General.

External scrutiny and audit

9. **There is annual coverage of all government entities, using professional standards and highlighting material issues and systemic risks.**

The Office of the Auditor General (AGO) undertakes mainly financial and compliance audits, together with some performance audits. The audits follow a systems- and risk-based approach. The Public Accounts Committee (PAC) holds in-depth hearings on the AGO's reports, and also makes recommendations, focusing on entities which have received adverse comments. There is little evidence, however, that the findings and recommendations of AGO or PAC reports are followed up systematically. This finding reflects the absence of effective accountability mechanisms in the Government, and the absence of legal recourse to impose penalties on non-complying officials for breaches of the law and financial misconduct.

PFM reform process

10. **A piecemeal approach is currently taken to the planning and management of PFM reforms.** Recent efforts have been made to address some of the deficiencies of the current systems and processes, but the institutional arrangements for planning and managing the PFM reform process need to be strengthened. Nevertheless, the authorities are keenly aware of the need to address underlying PFM weaknesses at a pace allowed by the political and economic conditions in PNG.

11. **The significant deficiencies of the existing PFM systems require a strategic approach to developing and implementing a reform agenda.** The assessment identifies a broad range of issues that need to be addressed, some urgently, some over the medium-term. Many of these reforms are substantial and technically and politically challenging and call for considerable dedication and commitment not only from the staff in the Departments of Finance and Treasury, but also at the political level and other departments of government. The authorities should prepare an

action plan that identifies the priority areas and appropriate sequencing of PFM reforms, together with measures to address the accountability gap in PNG.

12. **The process of implementing and internalizing PFM reform initiatives is constrained by limitations of capacity at all levels in the DoF and in the line departments, as well as by weak institutions and poor financial integrity.** Reform measures will need to be carefully prioritized and sequenced so as not to overload the limited capacity. The first priority should be placed on strengthening core functions of PFM systems which will provide the platform for more advanced reforms. Advanced reforms will generally not produce any significant results before core functions of the PFM system are in place. For instance, performance budgets will not serve any meaningful purpose in the absence of timely and reliable budget reports. Issues related to the enforcement of financial regulations also need to be addressed.

Table 1. Summary of Assessment

PFM Performance Indicator		Scoring Method	Dimension Ratings				Overall Rating
			i.	ii.	iii.	iv.	
Pillar I. PFM-OUT-TURNS: Credibility of fiscal strategy and budget							
PI-1	Aggregate expenditure out-turn compared to original approved budget		A				A
PI-2	Composition of expenditure out-turn compared to original approved budget	M1	D	C	D		D+
PI-3	Aggregate revenue out-turn compared to original approved budget		B				B
Pillar II-III KEY CROSS-CUTTING ISSUES:							
II. Comprehensiveness and Transparency							
PI-4	Classification of the budget		C				C
PI-5	Comprehensiveness of information included in budget documentation		B				B
PI-6	Extent of reporting on extra-budgetary operations	M2	D	D			D
PI-7	Transparency of inter-governmental fiscal relations	M2	B	A	D		B
PI-8	Performance information for achieving efficiency in service delivery	M2	D	D	D	C	D
PI-9	Public access to key fiscal information		D				D
III. Asset and Liability Management							
PI-10	Fiscal risk management.	M2	D	D	D		D
PI-11	Public Investment Management	M2	D	D	D		D
PI-12	Public Asset Management	M2	D	D	C		D+
PI-13	Management and reporting of debt and expenditure arrears	M2	D	D	D	D	D
Pillars IV-VII BUDGET CYCLE							
IV. Policy-Based Planning and Budgeting							
PI-14	Credible Fiscal Strategy	M2	B	B	A		B+
PI-15	Revenue Budgeting	M2	B	C	C		C+
PI-16	Medium-term perspective in expenditure budgeting	M2	D	D	D		D
PI-17	Orderliness and participation in the annual budget process	M2	B	C	C		C+
PI-18	Legislative scrutiny of the annual budget law	M1	D	C	A	C	D+
V. Predictability and Control in Budget Execution							
PI-19	Revenue administration compliance	M2	C	C	C	D	D+
PI-20	Accounting for revenues	M1	D	C	D		D+
PI-21	Predictability in the availability of funds to support service delivery	M2	D	A	D	C	C
PI-22	Effectiveness of payroll controls	M1	D	C	D	C	D+
PI-23	Transparency, competition and complaints mechanisms in procurement	M2	D	D	D	D	D
PI-24	Effectiveness of internal controls for non-salary expenditure	M2	C	D	D		D+
PI-25	Effectiveness of internal audit	M1	B	C	D	C	D+
VI. Accounting, Recording and Reporting							
PI-26	Accounts reconciliation and financial data integrity	M2	D	D	D	D	D
PI-27	Quality and timeliness of in-year budget reports	M1	D	D	D		D
PI-28	Quality and timeliness of annual financial reports	M1	D	D	D		D
VII. External Scrutiny and Audit							
PI-29	SAI Independence and external audit of the government's annual financial reports	M1	A	D	C	C	D+
PI-30	Legislative scrutiny of external audit reports	M1	C	B	C	D	D+

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Currency and indicative exchange rates

Local currency unit = Papua New Guinea kina (kina)

1 kina = 0.38 USD (March 20, 2015)

1 kina = 0.48 AUD (March 20, 2015)

Fiscal Year

01 January – 31 December

Fiscal years covered

2011, 2012, and 2013

ABBREVIATIONS AND ACRONYMS

ADB	Asian Development Bank
AGO	Auditor General Office
ALESCO	Integrated HR Payroll system Management System
BPNG	Bank of Papua New Guinea
BSC	Budget Screening Committee
BSP	Budget Strategy Paper
COFOG	Classification of Functions of Government (United Nations)
CSDRMS	Commonwealth Secretariat Debt Recording and Management System
CSTB	Central Supply and Tenders Board
DNPM	Department of National Planning and Monitoring
DoE	Department of Education
DoF	Department of Finance
DoH	Department of Health
DoT	Department of Treasury
DoW	Department of Works
DPM	Department of Personnel Management
DPLGA	Department of Provincial and Local Level Government Affairs
DSIP	District Services Improvement Programme
EBO	Extra-budgetary Operation
EC	European Commission
FAD	Fiscal Affairs Department
FBO	Final Budget Outcome
FRA	Fiscal Responsibility Act
FY	Fiscal Year
GBT	General Business Trust
GDP	Gross Domestic Product
GFS	Government Finance Statistics (IMF)
IFAC	International Federation of Accountants
IFMS	Integrated Financial Management System
IMF	International Monetary Fund
INTOSAI	International Organization of Supreme Audit Institutions
IPBC	Independent Public Business Corporation
IRC	Internal Revenue Commission
KATS	Kina Automated Transfer System
LLG	Local-level Government
MDAs	Ministries, Departments and Agencies
MTBF	Medium-Term Budget Framework
MTEF	Medium-Term Expenditure Framework
MTFS	Medium-term Fiscal Strategy
MYEFO	Mid-year Economic and Fiscal Outlook
NEC	National Executive Council

NEFC	National Economic and Fiscal Commission
NSO	National Statistics Office
PAC	Public Accounts Committee
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PF(M)A	Public Finances (Management) Act
PFMR	Public Financial Management Review
PFTAC	Pacific Financial Technical Assistance Centre
PGAS	Provincial Government Accounting System
PIM	Public Investment Management
PIP	Public Investment Programme
PNG	Papua New Guinea
PPP	Public-Private Partnership
PSAP	Public Sector Audit Program
ROSC	Report on the Observance of Standards and Codes
SNG	Sub-national government
SOE	State-Owned Enterprise
TA	Technical Assistance
WPA	Waigani Public Accounts

INTRODUCTION

13. **The objective of this assessment was to assist the Government conduct a Public Financial Management Review (PFMR) by using the upgraded PEFA framework (January 2015), which is currently being tested.** The assessment is designed to: (i) provide the government with an indicator-led overview of the country's PFM system weaknesses and strengths; (ii) help the government identify those parts of the PFM system that may need further reform and development; and (iii) identify any weaknesses and challenges of the upgraded framework and propose revisions to it, before the revised framework is officially launched later in 2015.

14. **Previous PEFA assessments of PNG were carried out in 2005 and 2009³.** In 2014 the PNG Government launched an internal PEFA assessment with a national government team using the existing PEFA framework (January 2011). It was also expected that active participation of the authorities in the internal assessment would enhance the capacity of the DoF staff on the use of the PEFA framework for the formal PEFA assessment. The preparation of the internal PEFA assessment was facilitated by the DoF as the leading agency, with support also provided by the Treasury Department and the Department of National Planning and Monitoring. A PEFA Secretariat was established in the Financial Reporting and Compliance Division of the DoF in 2013. A national assessors' team prepared a full PFM performance report following the 2011 PEFA framework.

15. **In preparation for the PEFA assessment, training was delivered by PFTAC experts during several missions starting in March 2014.** These training sessions were designed to: (i) enhance the authorities' understanding of the PEFA framework methodology and the process of carrying out a PEFA assessment; (ii) support the collection of essential supporting documentation; and (iii) assist in production of staff generated self-assessments for each indicator. As part of the training, a workshop was delivered for identifying the primary sources of information on each indicator and the supporting data to be gathered.

16. **The current assessment has been requested by the Government of PNG and was led by the IMF in close collaboration with the government counterparts.** As well as testing the upgraded framework, the IMF team also verified the ratings of performance indicators which were

³ The 2009 assessment was not formally endorsed by the government and was not published.

prepared by the national self-assessment team in accordance with the January 2011 framework. The new framework is composed of a set of 30 high level indicators which measure the performance of PFM systems, processes and institutions. The assessment focused mainly on the central government. The data used for rating the indicators mainly covered the years 2011, 2012 and 2013.

17. **The serious limitations in the availability and quality of the economic and financial data used in preparing this report should be noted.** Many basic national accounts data (e.g., on GDP and its expenditure components) are not currently available, and the capacity of the National Statistics Office to prepare such information needs urgent revamping. The absence of reliable macroeconomic data seriously undermines the Government's ability to analyze fiscal policy developments and make realistic projections of economic and fiscal indicators. In addition, two IT systems (IFMIS and PGAS) are currently used to produce financial information (see PI-26), and considerable use continues to be made of manual accounting systems, thus compromising the integrity of this information. These data limitations raise questions about whether the picture of PFM institutions provided in this assessment is accurate and reliable.

18. **The assessment is based on publicly available documents or supplementary information provided by the Government and other stakeholders.** The information gathered has been cross-checked against different sources to the extent possible. A wide range of interviews was undertaken to obtain additional information, including representatives of civil society and the private sector, as well members of the executive, the legislature and the AGO. The national authorities and the main donors involved in the PFM area in PNG reviewed the final report, based on the PEFA Secretariat's guidelines on quality assurance.

COUNTRY BACKGROUND INFORMATION

A. Economic Situation⁴

19. **Papua New Guinea (PNG) is a young nation rich in mineral and renewable resources.**

Independence from Australia was proclaimed in 1975. The PNG mainland and its six hundred islands have a total area of 463,000 square kilometers with the population of approximately 7.3 million which is strikingly diverse, organized in small, fragmented social groups and speaking over 800 distinct languages. The spectrum of PNG society ranges from traditional village-based life, dependent on subsistence and small cash-crop agriculture, to modern urban life.

20. **PNG has experienced over a decade of comparatively robust economic growth, with expanding formal employment opportunities and strong growth in government expenditure and revenues.** This economic performance was driven by high international prices for PNG's exports (including for agriculture), conservative fiscal policies and, more recently, construction activity related to a major liquefied natural gas (LNG) project.⁵ The petroleum and mining sectors have been significant contributors to economic growth in PNG over the past decade, and this should continue into the foreseeable future. These sectors account for around 75 percent of exports and 20 percent of GDP and have also been an important but volatile source of revenue for PNG. Mining and petroleum tax revenue as a percent of total revenue has ranged from 12 to 34 during 2008-2012.

⁴ Papua New Guinea 2013 and 2014 Article IV Consultation (IMF); Government of Papua New Guinea 2015 Budget; World Bank and ADB country overviews.

⁵ The PNG LNG Project is an integrated development that includes gas production and processing facilities in the Southern Highlands, Hela, Western, Gulf and Central Provinces of Papua New Guinea. There are over 700 kilometers of pipelines connecting the facilities, which includes a gas conditioning plant in Hides and liquefaction and storage facilities near Port Moresby with capacity of 6.9 million tons per year. The PNG LNG Project commenced production of liquefied natural gas in April 2014 and delivered its first cargo of LNG in May 2014, ahead of schedule.

Table 2. Selected Economic and Social Indicators

	2010	2011	2012	2013 est	2014 est	2015 est
Real GDP growth (%)	7.7	10.7	8.1	5.5	5.8	19.6
mineral	-2.0	-11.8	-7.4	7.2	90.6	150.5
non-mineral	8.7	12.8	9.2	5.4	0.5	4.0
GDP per capita (constant local currency)	1,638	1,746	1,845	1,904		
CPI (%)	6.0	4.4	4.5	5.0	5.3	5.0
Government debt (% of GDP)	25.6	23.0	26.7	34.0	37.0	31.0
Population	6,858,945	7,012,977	7,167,010	7,321,262		
Population ages 0-14 (% of total)	39.1	38.7	38.4	38.0		
Rural population (% of total)	87.0	87.0	87.0	87.0		
Life expectancy at birth (years)	62.0	62.2	62.3			
Unemployment, total (% of total labor force, modeled ILO estimate)	2.4	2.4	2.4	2.1		

Source: IMF Article IV reports and World Bank data base

21. **Notwithstanding this favorable environment, PNG continues to confront considerable development challenges.** With the poverty incidence at around 40 percent and a Human Development Index ranking at 157 out of 187 countries (in 2013), PNG remains one of the poorest and least developed countries in the Pacific. Around 80 to 85 per cent of the population reside in traditional rural communities, the majority securing their livelihoods from subsistence gardens and small scale cash cropping.

22. **PNG faces a slowdown in the non-mineral sector as construction winds down on the LNG project.** LNG revenue increases are expected to be modest over the near to medium term, posing challenges to meet the country's huge development needs. Also, the drop in global oil prices during 2015 will have a negative effect on Papua New Guinea's economy. It will be a challenge for both macroeconomic management and fiscal planning to adjust to the volatility and unpredictability of oil prices. In this environment, the foundations of future sustainable growth depend both on prudent macro-fiscal planning and policies to encourage the development of private enterprise.

23. **A key challenge facing PNG is to maintain fiscal and debt sustainability while pursuing development objectives.** Within a more restrained resource envelope arising mainly from the weak growth in the non-mineral sector, the government should shift its policy focus towards improving the quality of public expenditure. Stronger public financial management (PFM) is needed to improve development outcomes. A sound PFM system is essential for the effective implementation of

policies and achievement of intended outcomes by supporting aggregate fiscal discipline, a more strategic allocation of resources and efficient service delivery.

B. Fiscal and Budgetary Outcomes

24. The overall fiscal situation deteriorated rapidly in the 2011-2013 period (Table 3).⁶

Despite strong economic growth⁷ the near fiscal balance achieved in 2011 worsened to a deficit close to 8 per cent of GDP in 2013. On the financing side, this increasing deficit had an impact on the level of the debt stock. The overall level of debt grew from almost 25 per cent in 2011 to 34.6 per cent of GDP in 2013. It is expected to exceed 35 per cent, the ceiling stipulated in the Fiscal Responsibility Act (FRA), in 2014 but fall below this level by the end of 2015⁸.

Table 3. Central Budgetary Government Budget Out-turn 2011–13

	2011	% of GDP	2012	% of GDP	2013	% of GDP
Total revenue	9,324.9	29.3	9,704.6	28.6	9,832.7	28.3
<i>Domestic revenue</i>	8,279.9	26.0	8,613.2	25.4	8,955.2	25.8
<i>Grants</i>	1,045.0	3.3	1,091.4	3.2	877.5	2.5
Total expenditure and net lending	9,388.6	29.5	10,044.1	29.6	12,505.1	36.0
<i>Current expenditure</i>	5,778.1	18.1	5,763.9	17.0	6,900.7	19.9
<i>Capital expenditure and net lending</i>	3,194.2	10.0	3,846.8	11.3	5,119.6	14.8
<i>Interest</i>	416.3	1.3	433.4	1.3	484.8	1.4
Deficit/Surplus	-63.7	-0.2	-339.4	-1.0	-2,672.4	-7.7
Net financing	63.7	0.2	339.4	1.0	2,672.4	7.7
<i>Domestic</i>	38.0	0.1	220.1	0.6	2,328.8	6.7
<i>External</i>	25.7	0.1	119.3	0.4	343.6	1.0

Source: Final Budget Outcome 2011, 2012 2013.

25. The current fiscal situation is partly due to lower revenue collections than initially

expected. Total revenue has been persistently over estimated in recent years, especially in 2012 and

⁶ Source: National Budget Documents (Volume 1) for 2012, 2013, 2014 and 2015; IMF Staff Report for the 2014 Article IV Consultation, November 2014.

⁷ Mostly driven by the Liquefied Natural Gas (LNG) project, production and exports from which increased rapidly over the 2011-2013 period.

⁸ According to the IMF's baseline scenario, however, the debt/ GDP ratio would continue to exceed 35 per cent through 2019. See IMF, *Papua New Guinea—Selected Issues*, November 2014, page 9.

2013, partly as a result of lower receipts from Mining and Petroleum Tax. On the external revenue side (grants and donor funding) the outcomes show persistent discrepancies from the original budgeted amounts, with an average gap for 2011-2013 of 27 per cent of the initial budget.

26. **In 2011, actual budget execution was closely in line with the initial estimates but in 2012 and 2013 there was significant under-spending (respectively 5.2 percent and 4.2 percent).** At a more detailed level, budget execution reports show a repeatedly over-executed recurrent budget broadly compensated by under-spending on the development budget for both domestically and externally funded items.

C. Legal and Institutional Framework for PFM

27. **The PFM system in PNG is set out in a number of legal texts (Annex III provides a detailed list).** The Constitution defines the fiscal roles of the executive, legislative and judicial branches. Within the constitutional framework, the main laws governing the management of public funds include the Public Finances (Management) Act 1995, the Public Services (Management) Act 1995, the Audit Act 1989 and the Fiscal Responsibility Act (FRA) 2006. These laws set out basic budget and accountability provisions and structures, including:

- responsibility and accountability for the management of public funds, delegated to individuals and entities through the system;
- appropriate oversight by the legislature;
- the powers and duties of the central Departments of Treasury and Finance, and of the independent Auditor-General;
- the roles and responsibilities for all other stakeholders;
- the requirement that all revenues be paid into the Consolidated Revenue Fund (CRF) and can be only withdrawn through appropriations, and
- responsibility for the transparent reporting and disclosure of information on public finances.

28. **In addition to these core PFM laws, which are supported by implementing regulations and instructions where necessary, there are many other laws that deal with specific areas of PFM.** These include public procurement, the collection of taxes and customs and excise duties, the financial management of provincial and district governments, and the financial oversight of state-owned enterprises (SOEs). Each statutory authority and SOE is also governed by its own law, which

may include provisions relating to the management of its finances and the preparation of accounts and financial reports. A law on public-private partnerships (PPPs) was approved by the Parliament in 2014, and amendments to the sovereign wealth fund law have been submitted to the Parliament. Overall, much of the legal framework for PFM is out-of-date in many respects, and is also fragmented and inconsistent. Furthermore, many provisions are not strictly enforced by the central departments.

29. **As discussed elsewhere in this report, existing institutions in PNG do not provide sufficient checks and balances to ensure effective management and control of public resources.** The quality of governance is low and there are poor accountability mechanisms, with the result that many laws (including on PFM) are weakly enforced. Such a culture presents a formidable challenge to the authorities in attempting to introduce reforms that are intended to strengthen fiscal discipline and the control of public finances. The roles and responsibilities of the main institutions are summarized below.

30. **The National Government consists of three independent branches - the legislature, the executive and the judiciary.** The roles and responsibilities of the main institutions are summarized below.

Legislature

31. **PNG is a constitutional monarchy with a Parliamentary democracy at its base.** There is a unicameral National Parliament, comprising 111 seats, of which 89 are elected from open electorates and 22 Governors are from provincial electorates; members are directly voted into office by citizens over 18 years of age to serve five-year terms.

Executive branch of government

32. **The Queen of the Commonwealth, represented by the Governor General, is the Head of State.** The Prime Minister is the head of government; following legislative elections, the leader of the majority party or the leader of the majority coalition is appointed Prime Minister by the Governor General. NEC (Cabinet) Members are appointed from Government Members of Parliament by the Governor General on the recommendation of the Prime Minister. The Parliament appoints the Governor General.

33. **The National Budget comprises the following entities:**

- About 62 National Departments, including departments, National Parliament, Provincial Treasuries, Judiciary Services, and other agencies and public bodies.
- 50 Statutory bodies that are autonomous government agencies⁹ and are established by or under an Act to provide goods or services to the public on behalf of the Government. 22 provincial governments.

34. **The three key departments responsible for PFM at national level are Finance, Treasury and National Planning and Monitoring.** The Department of Treasury is responsible for fiscal policy, debt management and budget management; the Department of Finance for budget execution, accounting, and financial reporting; and the Department of National Planning and Monitoring for the public investment program, the development budget, and for the management, monitoring and evaluation of PNG's external aid program.

35. **Other national departments have their own budget and accounting staff.** These staff belong to the departments and not to any central finance cadre. However, departments have to implement the budget and accounting regulations and instructions specified by the Departments of Treasury and Finance. The IRC and the Customs Service are independent statutory authorities responsible for all national tax revenue collections. Matters concerning the management of the public service are dealt with the Department of Personnel Management (DPM) and the Public Service Commission (PSC).

Two other organizations play an important role:

- The semi-autonomous National Economic and Fiscal Commission (NEFC) is responsible for determining the formulas under which funds are transferred to equalize resources available to sub-national governments, according to their needs.
- The Central Supply and Tenders Board (CSTB) is responsible for the control and regulation of public procurement at central level.

⁹ In total there is about 138 Statutory Authorities, but only 50 are included in the national budget. Other statutory authorities might get transfers from the national departments or operate from their own sources of revenue.

Judiciary

36. **The judicial system comprises the Supreme Court, the National Court, the District Court and other courts (e.g. Village Court).** The Governor General, on the NEC's advice, appoints the Chief Justice. All other judges and magistrates are appointed by the Judicial and Legal Services Commission. In practice, the judiciary functions effectively as an independent check on some of the fiscal policy actions of Parliament and government. Matters relating to the interpretation of the Constitution and whether laws are consistent with it are the responsibility of the Supreme Court.

*Other institutions**Auditor General's Office (AGO)*

37. **The Auditor General's Office (AGO) is an autonomous constitutional body, which is accountable to the national Parliament.** Its primary function is to inspect, audit and report on the public accounts and on the control of public resources, including property. The AGO also issue reports that analyze the performance of the government in delivering public services. The section 213 (2) of the Constitution of PNG states that the Auditor-General is appointed by the Head of State, acting with, and in accordance with, the advice of the National Executive Council given after receiving reports from the Public Service Commission and the Public Accounts Committee. The Auditor Generals tenure of office is for six years. In practice the office is financially dependent on the national government, which means that its operations and personnel are supported through the annual budget.

Public Accounts Committee (PAC)

38. **The Public Accounts Committee (PAC) is a Parliamentary Committee comprising elected members of the national Parliament.** The PAC's primary function is to examine and report to Parliament on the control of public funds and assets. Functionally, the PAC acts and deliberates on matters recommended by the Auditor-General and especially on accounts on which the AGO has issued a disclaimer or qualified opinion.

Sub-national Governments

39. **Sub-national governments in PNG include Provinces, Districts, and Local-Level Governments.**¹⁰ Provincial and local level governments comprise 22 provinces and 89 districts. Their operations are governed by the Organic Law on Provincial Government and Local Level Governments. Provincial governments are separate legal entities, responsible for managing their own finances. However, each Province has a Treasurer who is an officer of the National Department of Finance, and all Provinces are required to observe the nationally prescribed accounting and reporting procedures. Local-level governments (LLGs) are also separate entities, but many are too small to manage their own affairs and District Treasuries manage the finances for groups of LLGs. District Treasurers are also Department of Finance officers. District Treasuries have been established and the Provincial Government Accounting System (PGAS) is currently used to automate their procedures.

40. **State-owned enterprises are managed by the Independent Public Business Corporation (IPBC).** It was formed by the Government of PNG under an Act of Parliament (2002) to exercise on behalf of the Government, and for the benefit of the State, the trustee ownership of, overarching business management of, and provision of financial resources and services for, certain state assets, notably the corporatized entities known as the State Owned Enterprises, and to act as trustee of other certain prescribed trusts. It is 100% state-owned statutory authority. Currently there are 12 state-owned enterprises in the trust.

D. Internal Control Framework

41. **An internal control framework should assist in the following tasks that help to ensure that fiscal risks are contained:** ensuring that spending is contained within specified ceilings in aggregate and at the item level; ensuring that all revenues due are collected; preventing or detecting I of corrupt activities including improper use of funds, diversion of revenue and theft of assets; facilitating the management of assets such as real estate, plant and equipment, inventories, financial and special purpose assets, and ensuring their proper maintenance; ensuring that managers at all levels have relevant and timely information for financial decision making; and

¹⁰ In addition to the Autonomous Region of Bougainville and the National Capital District.

demonstrating the government's accountability to Parliament and the public regarding the management of public finances.

42. **A range of instruments and tools can be established to manage these risks.** These tools include a clear and robust regulatory framework, and adequately trained staff with appropriate technical skills who understand their responsibilities and are given appropriate incentives and encouragement by their managers to enforce the necessary controls. Controls should be supported by a reliable flow of information and transparent procedures for identifying and bringing to account breaches of internal control and corrupt activity, together with an appropriate and enforceable system of sanctions and penalties including where necessary application of the criminal code.

43. **The internal control framework in PNG can be analyzed in two parts: first the structure of the internal control system and second the "climate" within which the system operates.** The regulatory framework for internal control in PNG is based on the Constitution which sets out broad principles of governance and public administration, and the roles of key players. The Constitution is supported by the PF(M)A which provides the framework for financial administration, and the financial instructions which lay down detailed procedures for the management of commitments, budget control, expenditure authorization, procurement, payroll, advances, donor projects, and asset management. The Appropriation Acts and laws governing the collection of taxes and customs duties also contain provisions on internal control, as do the laws relating to public procurement, statutory bodies, SOEs and provincial authorities.

44. **The institutional framework for internal control in PNG comprises many players, and includes:**

- The Departments of Finance and Treasury, which manage and monitor fiscal results;
- The AGO, which is the external auditor of all government agencies;
- The PAC, which follows up AGO reports;
- The Internal Audit and Compliance Division of the DoF, which carries out service wide internal audits;
- Internal audit units of IRC and Customs;
- Internal Audit Units and Audit Committees of National Departments, Provincial Governments and Statutory Authorities;
- The Inspection Branches of the Departments of Finance and Treasury

- The Ombudsman Commission, which may investigate complaints against officials and is responsible for enforcing the leadership code covering some 300 key officials, which focuses on the probity of behavior;
- The Police and Public Prosecutor, who initiate legal action against officials suspected of corrupt actions; and
- Departments, which may initiate disciplinary action against their officers breaching the framework.
- Department of Personnel Management which administers the new Public Service (Management) Act which includes disciplinary provisions for misconduct by public servants and a Public Services Code of Business Ethics and Conduct.

45. **This PEFA Assessment indicates widespread disregard and non-compliance with the formal requirements set out in the PF(M)A and other legislation.** Failings in the basic accounting, reporting, payment and payroll processing, bank reconciliation and control systems are discussed in later sections of this Report (for example, PEFA indicators PI-1, PI-6, PI-10, PI-12, PI-23-27).

This “climate” of non-compliance reflects the frequent lack of consequences for officials or organizations involved in cases of financial irregularity, even though relevant facts and issues may be identified and reported on. Many of the relevant institutions (including the police and the judicial system) are weak in carrying out their formal roles when breaches of control requirements or illegal acts are identified. Such a climate can only be changed by clear signals and actions at the highest levels (Cabinet ministers and departmental heads) to establish clear principles and rules of professional integrity and ethical values of public servants. While such changes are slow to take effect, the recently appointed Secretary of the Department of Finance is making attempts to strengthen financial integrity in his department following earlier revelations of widespread financial irregularities.¹¹

¹¹ A high-level *Commission of Inquiry into the Department of Finance* was set up in 2009 following allegations of fraud and financial misconduct by the Auditor-General and the Public Accounts Committee of Parliament. The Commission reported that “the Department has failed in its responsibilities by constant breaches of the Public Finance (Management) Act, instead showing scant respect for the Act, regulations and Financial Instructions.” The report revealed numerous instances of fraud and misconduct initiated by the Department, in some cases with the connivance of the Central Bank. See *Final Report*, October 29, 2009.

ASSESSMENT OF THE PFM SYSTEMS, PROCESSES AND INSTITUTIONS

A. Credibility of fiscal strategy and budget

PI-1. Aggregate expenditure out-turn compared to original approved budget

This indicator assesses the credibility of the budget by measuring the variance between the levels of aggregate actual expenditure and the original budget.

	Summary of Scores (scoring Method M1)	
	2015	Assessment
PI-1 Aggregate expenditure outturn compared to original approved budget	Overall score A	The overall level of expenditure appears to be in line with the original budget. The variance remains under 5per cent for the period of the assessment.

Dimension (i) The difference between actual expenditure and the original budgeted expenditure — Score A

46. **The aggregate expenditure out-turn was between 95per cent and 105per cent of the approved aggregate budgeted expenditure in the last three years (Table 4).** According to the information presented in the Final Budget Outcome (FBO) report¹² the overall level of budget execution appears to be in line with the initial approved budget. For 2011, the very small difference between original and executed budget (0.6 per cent) can be explained by the supplementary budget that was adopted in-year and helped reallocate expenditure among sections. This helped to increase the overall level of budget execution. Without this supplementary budget, the under-execution of the budget in 2011 would have been about 7per cent.

47. **Information on the budget lacks coherence and consistency.** The various budget documents and sources (e.g., budget documents, FBO, IFMS) provide inconsistent expenditure/revenue information both in aggregate and for individual budget line items, thus reducing the overall coherence of the financial reports. The 2015 PEFA assessment follows the agreement with the PNG PEFA secretariat and the various directorates and units of the Departments

¹² The FBO provides information on the original approved budget and the actual collection of revenue. This report is prepared by the Budget Division of the Department of Treasury and is submitted to the Cabinet and Parliament for information.

of Finance and Treasury to use the information presented in the Final Budget Outcome (FBO) report for each of the three considered years (2011, 2012, and 2013) to ensure that the data used for the calculations are consistent. This issue is discussed in more detail under PI-2 which also shows a high level of variability in the composition of expenditure.

Table 4. Difference Between Actual and Originally Budgeted Expenditure
(million Kina)

Year	Budget	Actual	Variance (%)
2011	9,328.1	9,388.6	0.6
2012	10,560.2	10,044.1	4.9
2013	13,030.8	12,505.1	4.0

Source: Final Budget Outcome 2011, 2012 2013

48. **While the overall execution of the budget appears to be satisfactory, the assessment of budget credibility needs to be combined with the results of indicator PI-2**, which focuses on the variance of the composition of expenditure. For example, the recurrent budget has been overspent for all three years while the development budget is regularly under-executed. These two items broadly compensate at the overall level. Also it should be noted that at the end of the year departments tend to transfer lapsing funds into trust accounts. As a result, the recorded level of budget execution increases even though these transfers represent no more than an accounting transaction between different government accounts.

PI-2. Composition of expenditure out-turn compared to original approved budget

This indicator assesses the credibility of the budget by calculating the degree to which the composition of expenditures differs from the original approved budget. It also assesses the extent to which the budget is predictable and reliable and reflects the implementation of stated public policy.

Summary of Scores (scoring Method M1)		
	2015	Assessment
PI-2 Composition of expenditure out-turn compared to original approved budget	Overall score D+	
	(i) D	(i) The variance in expenditure composition according to administrative classification exceeded 15 percent for the three years.
	(ii) C	(ii) The variance in expenditure composition was less than 15 percent for 2012 and 2013 but above the benchmark in 2011.
	(iii) D	(iii) It is difficult to track the actual expenditure charged to contingencies due to the lack of available information.

Dimension (i) Extent of the variance in expenditure composition during the last three years, excluding contingency items, and interest on debt — Score D

49. **Budget execution reports by administrative units showed a high level of variance in expenditure composition (Table 5).** An analysis of data available from IFMS and FBO indicates that these variances can largely be attributed to a supplementary budget implemented in FY 2011; in-year reallocations authorized under the PF(M)A; and discrepancies in the reporting of donor funding. Donors provide quite reliable and complete information of their projected financing for budget estimates but there is no regular reporting from donors to the government on the implementation of donor-financed expenditure¹³ to be reflected in the financial reports.

**Table 5. Variance in Expenditure Composition
According to Administrative Classification**
(million kina)

Year	Budget	Actual	Composition variance (%)
2011	8,877.7	8,952.3	16.8
2012	10,070.4	9,580.7	40.3
2013	12,319.8	11,980.3	29.9

Source: Final Budget Outcome 2011, 2012 2013 and reports from the IFMS

50. **The various available sources of information are difficult to reconcile, showing substantial discrepancies and gaps.** The data on budget execution are different than those

¹³ For instance, support by the Australian government (AusAid) was evaluated at 897.4 million kina in the original budget for FY2013 but no execution has been reported in IFMS.

reported in the FBO. For FY2012 and 2013, there are also differences between data reported in the FBO and IFMS, particularly regarding donor funding.

Dimension (ii) Extent of the variance in expenditure composition by economic classification during the last three years including interest on debt but excluding contingency items — Score C

51. **The variance in expenditure composition by economic classification has exceeded 5 percent for the last three years, most notably in 2011** (Table 6), with the largest variations occurring for goods and services, capital expenditure and subsidies.

**Table 6. Variance in Expenditure Composition
According to Economic Classification**
(million kina)

Year	Budget	Actual	Composition variance (%)
2011	9,308.1	9,368.6	23.8
2012	10,530.2	10,014.1	7.6
2013	12,990.8	12,465.1	11.5

Sources: Final Budget Outcome 2011, 2012 2013

Dimension (iii) The average amount of expenditure actually charged to a contingency vote over the last three years — Score D

52. **Budget execution of contingency expenditure is difficult to assess under the current rules and procedures.** The contingency budget is appropriated as Secretary's Advance (section 207) in the budget. Execution of section 207 items is reflected under the department which benefits from the transfer without indicating whether or not the source of finance is the contingency budget. Based on interviews with officials, it appears that actual expenditure charged to a contingency vote was on average less than 3 percent of the original budget (Table 7). Contingency expenditure covers items that are not appropriated directly for departments' budgets even though the expenditure concerned may have a clear purpose (e.g., national elections, national emergencies and natural disasters).

Table 7. Amount of Contingency Expenditure in budget
(million kina)

Year	Budget	Outcome ¹	% of the budget (for the 3 years)
2011	20	20	
2012	30	30	0.3
2013	40	40	

¹ For the purpose of the PEFA assessment it is assumed that the initial appropriation has been totally executed. This is based on the interviews as no official data are available.

Source: Final Budget Outcome 2011, 2012 2013

PI-3. Aggregate revenue out-turn compared to original approved budget

This indicator assesses the credibility of the budget by calculating the degree of variance between the actual revenue received and the original budget for the last three years. External financing is not included in the assessment of this indicator.

Summary of Scores (scoring Method M1)		
PI-3	2015	Assessment
Aggregate revenue outturn compared to original approved budget	Score B	The total revenue deviation is between 94 per cent and 112 per cent for the three considered years.

Dimension (i) Actual revenue compared to that provided for in the originally approved budget - Score B

53. **Actual revenue has been lower than the original approved budget for the last three years, the largest discrepancies being shown in 2012 and 2013 (Table 8).** Accurate forecasting of domestic revenue is a critical factor in determining budget performance, since budgeted expenditure allocations are based on these forecasts.

Table 8. Deviations in Revenue Collection
(million kina)

Year	Budget	Outcome	Revenue deviation (%)
2011	9,328.1	9,324.9	-0.03
2012	10,560.3	9,704.6	-8.10
2013	10,481.0	9,832.7	-6.19

Source: Final Budget Outcome 2011, 2012 2013

54. **The main shortfalls in revenue flows appear in external financing (grants) and non-tax revenue, with the deviation in revenue from grants being especially high.** The donors provide reasonably reliable information for budget estimates, but reporting on the execution of donor grants is almost non-existent. The limited information available on the execution of donor grants indicates that some shortfall in external grants can also be attributed to the fluctuations in the exchange rates.¹⁴ While overall tax collection is close to the estimated budget, significant variances occurred regularly throughout the period over most tax categories.

B. Comprehensiveness and transparency

PI-4. Classification of the budget

This indicator assesses the extent to which the classification system used for formulation, execution and reporting of the central government's budget is consistent with international standards.

	Summary of Scores (scoring Method M1)	
	2015	Assessment
PI-4 Classification of the budget	Score C	The budget is presented, executed and reported according to an administrative and economic classification (based on GFS 1986). The existing functional classification does not follow the COFOG standard.

Dimension (i) Classification of the budget - Score C

55. **The budget is presented, executed and reported on the basis of an administrative and economic classification, using the GFS 1986 standard (Table 9).** Budget appropriations are presented according to the administrative units of government which include national departments, statutory authorities, and provincial governments. In total there were 129 administrative units in the 2015 budget estimates, but this number has increased each year due to the growing number of statutory authorities.

¹⁴ External grants are provided in the foreign currency and the Government of PNG has to absorb the exchange rate fluctuations.

Table 9. An Example of the Administrative Classification Used in PNG

National departments	201 - National Parliament
	202 - Office of Governor-General
	203 - Department of Prime Minister & NEC
	204 - National Statistical Office
	206 - Department of Finance
.....	
Statutory authorities	502 - Office of the Auditor-General
	505 - National Research Institute
	506 - National Training Council
	509 - Border Development Authority (BDA)
	510 - Legal Training Institute
.....	
Provincial governments	571 - Fly River Provincial Government
	572 - Gulf Provincial Government
	573 - Central Provincial Government
	574 - National Capital District
	575 - Milne Bay Provincial Government
	576 - Oro Provincial Government
.....	

Source: PNG Budget Documents for 2014

56. **The current economic classification uses a three digit coding (Table 10).** This classification has been adopted by the central IT system (IFMS) but the other main IT system used for budgeting by majority of departments and provinces (PGAS) uses a different classification. The economic classification is currently being revised to implement the new GFS 2014 standard.

Table 10. An Example of the Economic Classification Used in PNG

Revenue	Expenditure
11. Tax revenue	21. Personnel emoluments
111. Tax on income, profit and capital gains	211. Salaries and allowances
1111. Personal income tax	212. Wages
1112. Company tax
.....	22. Goods and services
12. Non tax revenue	222. Travel and subsistence
.....
13. Total grants	26. Capital expenditure
.....	260. Acquisition of Existing Assets
	261. Acquisition of Lands, Buildings & Structures

Source: budget document for 2014

57. **The classification systems used for the budget and public accounts are not aligned.** Information on expenditure is not presented in the same format: the public accounts do not provide

the detailed expenditure of statutory authorities and provincial departments which are only presented in an aggregated fashion in the public account report.

58. **The functional classification is based on a national classification which is not consistent with the international standard (COFOG).** An internal classification has been developed for budget formulation and reporting, grouped into five main functional categories (Table 11). A similar functional classification is used for development expenditure.

Functional classification PNG	Functional classification COFOG (main heads)
1. General Government Affairs	1. General public services
2. Community and Social Affairs	2. Defense
3. Economic Affairs	3. Public order and safety
4. Multi-functional Expenditure	4. Economic affairs
5. Public Debt Charges	5. Environmental protection
	6. Housing and community amenities
	7. Health
	8. Recreation, culture and religion
	9. Education
	10. Social protection

Source: budget document for 2014/COFOG

59. **A basic program classification has been developed.** However, this classification is only used as an alternative budget presentation in the budget documentation and not for appropriations or budget execution. Moreover, these programs are not used by departments which have developed their own programmatic approach (e.g., the Department of Health).

PI-5. Comprehensiveness of the budget documentation

This indicator assesses whether the coverage of the annual budget documentation provides a complete picture of central government fiscal forecasts, budget proposals and out-turns of the current and previous years.

	Summary of Scores (scoring Method M1)	
	2015	Assessment
PI-5 Comprehensiveness of the budget documentation	Score B	The four basic elements are included in PNG's budget documentation for 2015. Five out of eight of the requested additional elements are missing including debt stock, financial assets, fiscal risks, medium-term framework and tax expenditure.

Dimension (i) Comprehensiveness of the budget documentation - Score B

60. **The most recent budget documentation includes all required basic elements (Table 12 provides details)¹⁵ though its clarity could be enhanced.** Documents contain a large amount of detailed information even though, with the exception of Volume 1, very little accompanying narrative is provided. In addition, there are discrepancies in the data for total revenues and expenditures presented in the documents. Information is lacking on important fiscal indicators such as the debt stock, financial assets, fiscal risks and tax expenditures, in addition to a medium-term budget framework. Moreover, transparency would be enhanced through presenting the development budget for each agency in the same section as the current budget, which has already been applied to the 2014 budget, and modifying the definition of the development budget so that it represents only genuine capital expenditure. Doing this would also considerably ease the development of a robust MTEF, as discussed in PI-16.

¹⁵ The annual budget is presented in three volumes. Volume 1 provides information on the global and national economic outlook, the medium-term fiscal strategy and outlook, developments on expenditure and revenue, financing and debt strategy, national reforms and an explanation of public policies. Volume 2 provides budget estimates for revenue and current expenditure for national departments, statutory authorities, provincial governments, as well as information on the stock of debt and trust accounts. Volume 3 provides information on development expenditure (the Public Investment Programme, PIP)

Table 12. Summary of Information in FY2015 Budget According to the PEFA Standards

Required information in the PEFA framework	Provided in the FY2015 budget documentation
<i>Basic elements</i>	
<ul style="list-style-type: none"> • Forecast of the fiscal deficit or surplus. 	Yes. Volume 1 of national budget (Economic and development policies – budget overview)
<ul style="list-style-type: none"> • Previous year’s budget out-run, presented in the same format as the budget proposal. 	Yes. Volume 2a,b,c,d (budget estimates for revenue and expenditure of national department, statutory authorities, provincial governments, debt and trust accounts) & volume 3 (public investment program 2015-2019) of national budget
<ul style="list-style-type: none"> • Current year’s budget presented in the same format as the budget proposals. 	Yes. Volume 2a,b,c,d (budget estimates for revenue and expenditure of national department, statutory authorities, provincial governments, debt and trust accounts) & volume 3 (public investment program 2015-2019) of national budget
<ul style="list-style-type: none"> • Aggregated budget data for both revenue and expenditure according to the main heads of the classification used, including data for the current and previous year, in addition to the detailed breakdown of revenue and expenditure estimates. 	Yes. Volume 1 (Economic and development policies – budget overview), volume 2a,b,c,d (budget estimates for revenue and expenditure of national department, statutory authorities, provincial governments, debt and trust accounts) & volume 3 (public investment program 2015-2019) of national budget
<i>Additional elements</i>	
<ul style="list-style-type: none"> • Deficit financing, describing its anticipated composition 	Yes. Volume 1 of national budget (Economic and development policies – budget overview)
<ul style="list-style-type: none"> • Macro-economic assumptions, including at least estimates of GDP growth, inflation, interest rates, and the exchange rate. 	Yes. Volume 1 of national budget (Economic and development policies – budget overview)
<ul style="list-style-type: none"> • Debt stock, including details at least for the beginning of the current year (present in accordance with GFS or other international recognized standards) 	No information in budget documents (detail of debt in volume 1 but not on stock or detail of the beginning of the current year)
<ul style="list-style-type: none"> • Financial assets, including details at least for the beginning of the current year (present in accordance with GFS or other international recognized standards) 	No information in budget documents
<ul style="list-style-type: none"> • Summary information of fiscal risks (including contingent liabilities, such as guarantees and contingent obligations embedded in PPP contracts, etc) 	No information in budget documents
<ul style="list-style-type: none"> • Explanation of budget implications of new policy initiatives and major new public investments, with estimates of the budgetary impact of all major revenue policy changes and/or major changes to expenditure programs 	Yes. Volume 1 of national budget (Economic and development policies – budget overview)
<ul style="list-style-type: none"> • Documentation on the medium term framework 	No information in budget documents (medium term fiscal strategy in volume 1 but not developed and documented enough)
<ul style="list-style-type: none"> • Quantification of tax expenditures 	No information in budget documents

Source: PNG Budget Documents for 2015.

PI-6. Extent of Reporting on extra-budgetary operations (EBOs)

This indicator assesses whether all budgetary and extra-budgetary activities of central government are included in budget estimates, in-year execution reports, year-end financial statements and other fiscal reports for the public. This is needed to provide a complete picture of central government revenue, expenditures across all categories, and financing.

	Summary of Scores (scoring Method M2)	
	2015	Assessment
PI-6 Extent of reporting of extra-budgetary operations	Overall Score D	
	(i) D	(i) It is not considered feasible to determine the level of extra-budgetary operations with any degree of precision.
	(ii) D	(ii) While some details of financial operations of extra budgetary operations are included in ex ante and ex post reports it is not possible to determine the percentage.

Dimension (i) Level of extra-budgetary operations which is not recorded in ex ante or ex post fiscal reports — Score D

61. **There are a substantial number of EBOs¹⁶ but little information exists on the size of their activities.** In general, the government does not collect information on extra-budgetary activities and in the time frame available to the mission it was not possible to undertake such an exercise. However, the mission was able to identify the following main categories of EBO:

- *Own-source revenues.* Various statutory bodies collect significant amounts of own-source revenue, which are not generally reported in the budget documents or the annual public accounts. A list provided by the DoF indicates there are some 138 such national bodies of varying size and importance. About half of these bodies receive budget funding but also retain significant amounts of own-source revenue. These entities include the Housing Corporation, the Civil Aviation Authority, the Airport Authority and the National Roads Authority. Each statutory body prepares separate financial statements which disclose their overall financial operations, both budget-funded and financed from own-source revenue. A review of these financial statements is provided in Part 4 of

¹⁶ According to the IMF's Government Fiscal Statistics Manual (GFSM) 2014 central government comprises all units at the central level carrying out government policies. This includes not only the line ministries, their departments and agencies that operate as part of the government as a single reporting entity, but also non-market non-profit institutions that are controlled and mainly financed by central government. Most special funds, social security funds and other autonomous agencies are likely to fall within this definition, except public business enterprises.

the Auditor-General's annual report on public bodies and national government owned companies but no consolidated financial information is presented (see also the discussion in PI-10).

- *Trust Accounts.* The budget documents and public accounts include many hundreds of trust accounts which are used in some cases to by-pass the annual appropriations process under which appropriations lapse at the end of the fiscal year. A 2013 performance audit by the AGO on trust account operations notes the limited scrutiny of their operations and the difficulty of identifying all trust accounts. Data on the balances of unknown trust accounts are not available.
- *External sources of finance.* A number of private donors including for example, the Clinton Foundation and the Global Foundation for Health provide funding to various national health and education programs. These funds are not shown in the budget documents and departmental appropriations and are retained by those departments. Nor is the expenditure from these funds recorded in government accounting reports.

Dimension (ii) Details of income, expenditure and financing information reported on extra-budgetary operations in ex ante and ex post reports — Score D

62. **As indicated above in Dimension (i) a considerable amount of information on EBOs is available in separate financial statements but not in a consolidated form.** In particular, detailed information is available on statutory bodies, known trust accounts and donor funding (excluding private donors). The following table summarizes the position concerning ex ante and ex post fiscal reports¹⁷:

Type of EBO	Ex Ante	Ex Post ¹
Statutory authority retained revenue	No	Yes
Known Trust Accounts	Yes	Yes
Unknown Trust Accounts	No	No
Donors	Yes	Mainly no
Private donors	No	No

¹ Many financial reports are available only with a long time lag.

¹⁷ Ex ante report is budget documentation submitted to the Parliament. Ex post fiscal reports are mid-year budget and fiscal outlook, annual financial statements and AG's reports.

PI-7. Transparency of intergovernmental fiscal relations

This indicator assesses the transparency and objectivity of the allocations and timeliness of reliable information for sub-national governments (SNGs), and the extent of consolidation of fiscal data for general government.

	Summary of Scores (scoring Method M2)	
	2015	Assessment
PI-7. Transparency of intergovernmental fiscal relations	Overall Score B	
	(i) B	(i) Horizontal allocation of roughly 65 per cent of transfers from central government is determined by a transparent and rules-based system.
	(ii) A	(ii) Provinces are provided with reliable information via a budget circular in June/July.
	(iii) D	(iii) Information on provinces, districts and LLGs is collected by DoF, but data on general government finances are not consolidated.

Dimension (i) Transparent and rules-based systems in the horizontal allocation among sub-national governments of unconditional and conditional transfers from central government (both budgeted and actual allocations) – Score B

63. **Almost two-thirds of central government’s transfers to sub-national governments are based on transparent and rules-based systems (Table 13).**¹⁸ These rules are set by a semi-autonomous agency, the National Economic and Fiscal Commission (NEFC), which reports to the Minister of Treasury. Several of the transfers to provinces and local-level governments are included in an overarching equalization scheme that directs funds to those entities with the least ability to fund services through their own resources. The allocation to SNGs of salaries and other staff-related costs are not based on transparent and horizontally equitable rules. Administrative approval of staff positions in provinces and districts are generally made without reference to service delivery criteria or the needs of the local population. For instance, according to some officials, there can be significant variation in student-teacher ratios among the provinces and districts.

¹⁸ Evidence was provided by the National Economic and Fiscal Commission (NEFC) and the Department of Education on the formulas and allocation rules that apply to the transfers for 2.5 billion kina. Allocation formulas for the Provincial Services Improvement Program (PSIP), the District Services Improvement Programme (DSIP), and the Local Level Governments (LLGs) are explained in budget documents and confirmed by officials from the Department of Treasury.

Table 13. Transfers to Sub-national Governments, 2013

<i>Amounts in thousands of kina (000)</i>	FY2013 Budget Outturn	Meeting the Requirements for Transparency and Rules-based transfers
Administration Grant (Account 252110)	11,384	11,384
Other Service Delivery Function Grant (Acct 252115)	42,608	42,608
Agriculture Function Grant (Account 252210)	6,303	-
Primary Production Function Grant (Acct 252212)	25,332	25,332
Staffing Grant (Acct 252215)	150,456	-
Teacher Salaries (Acct 252220)	886,009	-
Public Servants Leave Fares (Acct 252225)	13,129	-
Teacher Leave Fares (Acct 252230)	30,980	-
Village Courts Allowance (Acct 252235)	8,165	-
Health Function Grant (Acct 252245)	77,686	77,686
Education Function Grant (Acct 252250)	78,441	78,441
Transport/Infrastructure Maintenance Grant (Acct 252255)	107,008	107,008
Village Courts Function Grant (Acct 252260)	5,781	5,781
Local Level Governments (Acct 252290)	48,984	48,984
District Service Improvement Program Idg	518,102 3,000	518,102 -
Local Level Governments (.5/llg)	154,301	154,301
Provincial Service Improvement Program	457,000	457,000
Special Support Grants	75,000	-
Other	121,700	-
Sub-Total	2,821,368	-
Education-Fee Free ¹	648,591	648,591
Non-grant Transfers ²		
GST	143,973	143,973
Bookmaker's Tax	3,256	3,256
Mining/Petroleum	129,116	129,116
Total outturn	3,746,304	2,451,562
<i>Share of sub-national transfers meeting requirements for transparency and rules based transfers</i>		65%

¹ From Volume 2b, 2015 Budget, page 270

² From Table 4, 2013 Budget Fiscal Report, National Economic and Fiscal Commission

Source: 2013 Provincial Actual from Volume 2d-2015 Budget

Dimension (ii) Timeliness of reliable information for budget planning to sub-national governments on their allocations from central government for the coming year – Score A

64. **The process by which SNGs receive information on their annual transfers is managed through the regular budget calendar, which is generally adhered to and provides clear and sufficiently detailed information.** The calendar usually provides SNGs with at least six weeks to complete their budget submissions. Information regarding the grants determined by the NEFC is generally available in June or July prior to the start of the budget year, and is communicated to Provincial Governments through a June/July budget circular, which also provides information on other transfers to SNGs.

Dimension (iii) Extent to which consolidated fiscal data (at least on revenue and expenditure) is collected and reported for general government – Score D

65. **Reports that consolidate fiscal information for central governments entities and SNGs are not prepared by the government.** The SNGs provide half-yearly budget execution reports to the Department of Finance on a reasonably timely basis, but their submission of annual financial statements is seriously in arrears. However the government does not consolidate the available information and produce the general government financial statements.

PI-8. Performance information for achieving efficiency in service delivery

This indicator assesses the quality of annual performance information that informs decisions at different stages of the budget cycle, specifically in the executive's budget proposal or supporting documentation, in the year-end financial statements, and in audit reports or performance evaluation reports.

	Summary of Scores (scoring Method M2)	
	2015	Assessment
PI-8. Performance information for achieving efficiency in service delivery	Overall Score D	
	(i) D	(i) No performance targets or indicators on service delivery are included in the budget documentation.
	(ii) D	(ii) Information on performance results are not included the budget documentation or reports on budget execution prepared by the Treasury.
	(iii) D	(iii) No government-wide systems are in place that assess whether resources allocated to service delivery units have been delivered as planned.
	(iv) C	(iv) Some independent performances evaluations have been undertaken in the last three years.

Dimension (i) Disclosure, within budget documentation, of key performance indicators and targets for service delivery — Score D

66. **Performance indicators and targets for service delivery are not presented on a government-wide basis with the budget documentation.** The budget documents presents information on expenditures by administrative, economic and functional classification, but a program classification, which would facilitate the presentation of performance information, has not yet been fully developed. Nevertheless, some useful work has already been done in PNG to develop performance targets and indicators in the preparation of National Development Plan and the associated plans for sectors such as education, health and transport. Such information could eventually be adapted for use within a medium-term budget framework that also has a results-based orientation, but would require extensive building of information systems and analytical capacity in the Treasury and the line departments.

Dimension (ii) Disclosure, within budget documentation, year-end reports or other public documents, of data on the performance results achieved by service delivery functions—Score D

67. **Performance results are not currently presented with the budget documentation, or reports on the execution of the budget.** As noted under Dimension (i), however, some line departments (notably, Education, Health and, to some degree, the Department of Works for road building projects) have developed performance targets and indicators in relation to the delivery of their services, and prepare internal reports that track performance against these targets and

indicators. Such information, however, is not collected systematically or presented on a consolidated basis.

Dimension (iii) Monitoring of resources received by service delivery units — Score D

68. **At the time of assessment, no comprehensive system has been developed to monitor the transfer of resources to service delivery units.** At the level of individual sectors, however, some studies have been carried out, for example as part of the Public Expenditure Review of the education sector, and in the health sector.

Dimension (iv) Content and coverage of independent performance evaluations — Score C

69. **Some useful initiatives have been taken to evaluate performance information in a few ministries and agencies, but their coverage represents less than 25 percent of the budget, and the initiatives are not coordinated across the government.** The AGO, for example, has undertaken performance audits of expenditure programs such as solid waste management, access to safe drinking water and the District Service Improvement Programme (DSIP). These reports that include many recommendations for strengthening existing arrangements. In addition, departments such as Health and Education undertake internal evaluations of their activities and programs, sometimes as part of a Sector Wide Approach (SWAP) they have developed with donors. The Department of Health publishes a Sector Performance Annual Review. The NEFC has also prepared a paper on the 2012 provincial expenditure review.

PI-9. Public access to key fiscal information

This indicator assesses the level of transparency of fiscal information by ascertaining the accessibility to the public against a number of information benchmarks.

	Summary of Scores (scoring Method M1)	
	2015	Assessment
PI-9 Public access to key fiscal information.	Score D	One of basic elements (the last audited annual financial report) is missing as are three of the additional elements.

Dimension (i) Public access to key fiscal information — Score D

70. **A large number of budget documents and information is available on departmental websites or released in the press (Table 14).** The complete budget documentation is available on

the Treasury's website (<http://www.treasury.gov.pg/index.html>) from the latest budget proposal (2015) as well as past budgets (since 2005). The Department of Treasury publishes information on quarterly warrants that are allocated to administrative units and also quarterly budget execution reports. These reports are released within one month following the end of each quarter and are also published in the media. The mid-term budget review published at the end of July is a more comprehensive and includes data on revenue collections and an analysis of budget execution together with projections.

71. **One required basic element to key fiscal information is missing, namely the audited financial statements of the government for the latest completed fiscal year (2013).** The latest year for which audited financial statements have been released is 2010. The audited public accounts of 2011 were sent to the Parliament, but have not yet been reviewed and released. The only audit reports available for 2013 cover public authorities, statutory bodies and government-owned companies. Completed audit reports, including performance audits, are available on-line (<http://www.ago.gov.pg/>).

72. **Only one of the four additional elements is actually available.** The Auditor-General has published several performance audit reports on his website¹⁹. The other additional elements including a pre-budget statement, a summary of the budget proposal and the medium term budget outlook were not available for 2014 (Table 14).

¹⁹ These reports relate to the Effectiveness of Solid Waste Management; Access to Safe Drinking Water in the National Capital District; the IFMS; and the Management and Reporting of Trust Accounts.

Table 14. Summary of Available Fiscal Information According to PEFA Standards

Required information in the PEFA framework	Availability and source
<i>Basic elements</i>	
<ul style="list-style-type: none"> Annual executive budget proposal documentation Enacted budget (the annual budget law approved by the legislature is publicized within two weeks of passage of the law) In-year budget execution report 	<p>Yes within one week. Treasury website: http://www.treasury.gov.pg/index.html</p> <p>Yes, but not within two weeks. Treasury website: http://www.treasury.gov.pg/index.html</p> <p>Yes, quarterly publication on warrants and expenditure execution prepared by the Department of Treasury is available within a month. For revenue, a mid-year budget outcome is available. Treasury website: http://www.treasury.gov.pg/index.html</p>
<ul style="list-style-type: none"> Audited annual financial report, incorporating or accompanied by external auditor's report (reports are made available to the public within twelve months of the year end) 	<p>No, last audited financial report is for FY 2010. Time lag in publishing is substantial and varies year-by-year. Auditor General's website: http://www.ago.gov.pg/</p>
<i>Additional elements</i>	
<ul style="list-style-type: none"> Pre-budget statement Other external audit report (available to the public within six month of submission) Summary of budget proposal 	<p>Not for FY2015. However usually Budget Strategy document is available online (http://www.treasury.gov.pg/index.html) and regularly published.</p> <p>Yes, reports available on auditor's general website: http://www.ago.gov.pg/ Publishing times vary.</p>
<ul style="list-style-type: none"> Medium term budget outlook (as assessed in PI-16) 	No

C. Asset and liability management

PI-10. Fiscal risk management

This indicator assesses the extent to which the government collects information on the fiscal risks that arise from its policies and operations, quantifies those risks and makes information available to the public, and has developed effective strategies to manage the risks.

	Summary of Scores (scoring Method M2)	
	2015	Assessment
PI-10. Fiscal risk management	Overall Score D	
	(i) D	(i) Statutory bodies and state-owned enterprises (SOEs) create substantial fiscal risks, and have generally weak financial management practices. No procedures have been established by central departments to consolidate and monitor such risks.
	(ii) D	(ii) Provinces and local-level governments (LLGs) create substantial fiscal risks, and have very weak financial management practices. No procedures have been established by central departments to consolidate and monitor such risks.
	(iii) D	(iii) No procedures have been established for monitoring explicit contingent liabilities. The proposed PPP Center that will be attached to the Treasury may help strengthen central monitoring capacity.

Dimension (i) Extent of central government monitoring of statutory bodies and SOEs — Score D

73. **According to the Department of Finance, there are 138 statutory bodies fulfilling a range of commercial, social and regulatory tasks, together with 12 state-owned enterprises (SOEs) that are wholly-owned by the government, incorporated under the General Business Trust (GBT) and supervised by the Independent Public Business Corporation (IPBC).** Many statutory bodies and all SOEs have their own legislation, but statutory bodies are also subject to the PF(M)A, except for the procurement rules.

74. **Reports by the Auditor-General²⁰ suggest that statutory bodies and SOEs are highly vulnerable to fiscal risk.** Most of the 89 public entities audited by the Auditor-General are several years in arrears in submitting their annual financial statements, and many have received audit disclaimers or adverse opinions. The most recent report by the AGO²¹ notes failures of basic accounting systems such as bank reconciliation, accumulation of arrears, ineffective internal control systems, non-compliance with controls on salaries and conditions of employment, and failure to comply with IRC regulations on tax payments.²² There is a substantial volume of on-lending by the government to SOEs, but no register of the guarantees associated with such borrowing is maintained by the central departments, or by IPBC. While various recent initiatives to tighten the control environment for statutory bodies and SOEs²³, when implemented, should lead to some welcome improvement, these developments need to be matched by much tighter monitoring of fiscal performance and risks by the treasury and Department of Finance. In this respect the establishment of a branch in the Department of Finance to monitor the financial performance of statutory bodies is welcome.²⁴

Dimension (ii) Extent of central government monitoring of local governments' fiscal position — Score D

75. **The SNG sector in PNG comprises 22 provinces and some 320 districts and local-level governments (LLGs).** These entities account for some 12.4 percent of the total state budget (about 16 percent of the recurrent budget and 6 percent of the capital budget). About half of the aggregate budget of SNGs is financed by grants transferred from the state budget, about half from own revenues and a revenue-sharing agreement with the IRC. While in principle provinces may

²⁰ *Report of the Auditor General for 2013—Part 4 on Public Authorities and Statutory Bodies*, June 2014.

²¹ In addition, several SOEs are audited by private sector firms under the supervision of the Auditor-General.

²² A recent report by the World Bank makes a similar point about SOEs, noting concerns about the timeliness of audited financial statements, disclaimer notices by the Auditor-General for misreporting or for including material inaccuracies in the financial statements, and the lack of effectiveness of critical management and oversight functions. See *Report on the Observance of Standards and Codes (ROSC), Accounting and Auditing Module*, February 2015, page 22.

²³ These include the preparation by Treasury of a policy framework on on-lending, community service obligations (CSOs) and dividend policy for SOEs, and the development by the IPBC's of a risk management framework for SOEs.

²⁴ The responsibilities of this branch will include the establishment of a comprehensive database of loans and guarantees issued to statutory bodies and SOEs, and a strengthened framework for financial reporting by these entities.

borrow subject to approval by the Department of Finance, in practice very little borrowing takes place. The SNGs provide half-yearly budget execution reports to the Department of Finance on a reasonably timely basis, but their submission of annual financial statements is seriously in arrears. For the last six years, the Auditor-General has been unable to form an audit opinion on the accounts of any of the individual provinces, districts and LLGs.

76. **A recent report by the Auditor-General²⁵ reveals numerous and serious failings in the financial management procedures and practices in the SNGs.** These failings cover most areas of financial management including appropriation and budget management, revenue and receivables, purchases and payments, payroll management, bank reconciliation and cash management, accumulation of substantial arrears, asset management and trust account management. Reasons for these failings listed by the Auditor-General include failures of top management, lack of expertise and competence in treasury and accounting functions, a culture of widespread abuse and diversion of public funds, weak internal audit, and absence of regular monitoring and review by the Department of Finance.

Dimension (iii) Extent of central government monitoring of explicit contingent liabilities — Score D

77. **No register of explicit contingent liabilities—including expenditure arrears, government guarantees or the potential losses from ongoing or pending court cases against the government—is maintained by the Treasury or the Department of Finance.** Some information on government guarantees and pending court cases is kept by the Attorney General's Department but this information is not shared with Treasury or the Department of Finance. The PPP Center that is being established as an agency under the supervision of the Minister of Treasury, following the enactment of the Law on Public-Private Partnerships in 2014, should be encouraged to develop a comprehensive database of PPPs, and to closely monitor the fiscal risks associated with them.

²⁵ *Report of the Auditor General for 2013—Part 3 on Accounts of Provinces and Local-level Governments*, June 2014.

PI-11. Public investment management

This indicator assesses the effectiveness of the procedures used by the government to assess the economic value and feasibility of proposed new public investment projects, to ensure that their full costs are taken into account in deciding whether to finance them through the budget, and to monitor their implementation.

	Summary of Scores (scoring Method M2)	
	2015	Assessment
PI-11. Public investment management	Overall Score D	
	(i) D	(i) Few departments undertake rigorous economic analysis of proposed public investment projects, and there is no capacity in central departments to validate such analysis.
	(ii) D	(ii) Estimates of the full life-cycle costs of projects are prepared by few departments, but a new government policy will require them to do so in the future.
	(iii) D	(iii) Systematic reporting on the physical and financial progress of projects is carried out by few departments and agencies. The frequency and quality of reports by donor agencies on the projects they finance varies widely from sector to sector.

Dimension (i) Objective economic analysis — Score D

78. **As discussed elsewhere in this report, the government prepares a Public Investment Program (PIP) as part of its annual budget submission.**²⁶ The information contained in the PIP is prepared by departments and statutory bodies, together with provinces, districts and local-level governments. This program covers a period of five years but does not measure the full life-cycle costs of public investment projects, and does not take full account of the operational and maintenance costs associated with the projects (see also PI-16 and PI-17).

79. **Guidelines on preparing and presenting proposals for new projects were issued by the Department of National Planning and Monitoring in 2007, and are in the process of being updated.**²⁷ These guidelines set out a seven-stage process for preparing and implementing public investment projects. In the appraisal stage, proposals for new projects are meant to comply with ten

²⁶ *Public Investment Program 2015-2019*, Volume 3 of the budget documents, December 2015. The PIP is a development budget of which only about 60 percent comprises capital formation.

²⁷ Department of National Planning and Monitoring, *Public Investment Programme Guidelines*, August 2007.

criteria related to consistency with national policy and sector investment plans (SIPs), policy impact, sustainability, affordability, management capability, equity, economic and income-earning potential, cross-sectoral issues and risk management. The guidelines also require that feasibility studies be carried out, at least for major projects before decisions are taken about financing them. In practice, however, departments do not follow the guidelines in preparing their proposals to include in the PIP. It is common practice for the budget estimates to include a long list of projects (about 120 such projects in 2014) that are proposed at the last minute by departments and have not been well prepared. A few agencies, the Department of Health and the Department of Works (for road projects) for example, conduct an economic appraisal as part of preparing a feasibility study, but only after financing has been approved in the budget

Dimension (ii) Costing over the project life cycle — Score D

80. **With the exception of the Department of Health, which changed their policy in 2014, no government department or agency has adopted a methodology for assessing the cost of projects over their full life cycle, taking account of both capital and recurrent costs.** Current practices reflect the PIP Guidelines noted above, and the failure of the Department of National Planning and Monitoring to enforce stricter requirements. Some departments, however, use standard costing models and simple “blueprints” in preparing project proposals.²⁸ In addition, the Treasury has recently announced a new policy that “no new infrastructure programs should be funded unless they have gone through a proper design and costing process.”²⁹ This policy should put pressure on agencies to improve their existing procedures.

Dimension (iii) Project monitoring and reporting — Score D

81. **Only a few agencies (e.g., the Departments of Health and Works) maintain a comprehensive database of existing projects, and require project managers to submit regular reports to senior managers on the financial and physical progress on implementing these projects.** However, even in these best cases, monitoring is incomplete because many projects are implemented in the provinces where reporting standards are less satisfactory. Little monitoring is also done by the DNPM. Reporting of progress in donor-financed projects is variable except in a few

²⁸ An example is the Department of Education what utilizes standard designs and costs for classrooms and teachers’ houses.

²⁹ *Budget Strategy Paper 2014*, page 5.

departments such as health where a sector-wide approach is being followed and coordination between the government and donors is strong. In most agencies, project monitoring reports are not delivered to the senior managers of departments on a regular and timely basis. Project monitoring is stronger in the Department of Works, which is responsible for developing PNG's road network, but most infrastructure projects are now managed directly by other departments (education, health, water, etc).

PI-12. Public asset management

This indicator assesses how the government records, manages and monitors its financial and non-financial assets, and the transparency of procedures for the disposal of assets.

	Summary of Scores (scoring Method M2)	
	2015	Assessment
PI-12.Public asset management	Overall Score D+	
	(i) D	(i) Reporting and monitoring of the government's financial assets are incomplete and unreliable.
	(ii) D	(ii) Reporting and monitoring of the government's non-financial assets are fragmented, incomplete and unreliable.
	(iii) C	(iii) Procedures for the sale of non-financial assets are not transparent or competitive.

Dimension (i) Quality of central government financial asset monitoring — Score D

82. **The accounting standards for reporting on financial assets vary from one agency to another.** The vast majority of public entities, including national departments, only record transactions according to the cash basis of accounting. Some other entities, mainly statutory authorities operating as private sector companies (e.g., the Civil Aviation Safety Authority and the National Museum and Art Gallery of PNG), present their accounts on a commercial basis.

83. **In both these cases, however, the reporting and monitoring of financial assets appears incomplete and unreliable.** Each national department is required under the PF(M)A to keep records of their financial assets but no standardized formats or procedures have been developed to ensure that such information is comprehensive and reliable. No controls are implemented to validate the information recorded, even by financial controllers within the departments and agencies concerned. The Treasury is responsible for monitoring the management of financial assets in various categories

specified in the financial statements but in practice much of the required information is not available (see Table 15). A similar picture applies to the reporting of financial assets by statutory authorities.

Table 15. Categories of Financial Assets the DoT Should Monitor

Category of financial assets	Reporting
Cash held by the State in commercial banks and the BPNG.	Information on international reserves does not appear in the financial statements but in-year reports include data on such reserves held by the BPNG.
Assets held by state in commercial entities or independent statutory bodies.	Information is available in the public accounts but is incomplete ³⁰ and sporadic.
Public lending, including on-lending by the state to third parties.	Information is available in the public accounts.

Dimension (ii) Quality of central government non-financial asset monitoring— Score D

The law requires all national departments, provincial governments and statutory authorities to maintain a register of fixed assets. In practice, however, most of these registers provide only partial and unreliable data due to problems ranging from negligence to inappropriate valuation, and the information is not consolidated.³¹ The IFMS includes an asset management module which has not yet been implemented.

Dimension (iii) Transparency in the sale of non-financial assets — Score C

84. **The PF(M)A requires that the CSTB control and regulate the purchase and disposal of fixed assets.** The same law gives powers to Ministers to establish special committees that approve the sale or disposal of properties and non-financial assets (e.g., vehicles) in each department, agency

³⁰ Not including equity or other assets held by the state in other public bodies such as statutory authorities. Moreover, the Auditor-General's report cited above states that information on the value of these investments has not been disclosed.

³¹ The Auditor-General's report on the accounts of Public Authorities and Statutory Bodies (Volume IV) for 2010 noted lack of basic accounting records including: (1) registers of fixed assets not being properly kept or maintained; (2) no consistent and proper valuation of assets; (3) checks of physical assets not being carried out; (4) property being acquired or disposed of without proper procedures being followed; and (5) failure to comply with International Financial Reporting Standards in the preparation of the financial statements.

and province. Even though such committees have been established, their operations lack transparency. Sales of assets are not announced and the results are generally not reported.

PI-13. Management and reporting on debt and expenditure arrears

This indicator assesses the efficiency of the government's procedures for managing and reporting internal and external debt, and the existence of expenditure arrears.

	Summary of Scores (scoring Method M2)	
	2015	Assessment
PI-13. Management and reporting on debt and expenditure arrears.	Overall Score D	
	(i) D	(i) Records of the stock and turnover of debt are updated on a regular basis, but are incomplete.
	(ii) D	(ii) The legal base for borrowing and issuing guarantees is unclear.
	(iii) D	(iii) A Medium-Term Debt Strategy has been developed, but has some gaps in its coverage.
	(iv) D	(iv) There is no systematic recording and reporting of payment arrears.

Dimension (i) Domestic and foreign debt data recording and reporting — Score D

85. **The debt records are updated on a regular basis, but are incomplete.** The data are recorded in the Commonwealth Secretariat Debt Recording and Management System (CSDRMS) which covers both external and domestic debt. The Financial Management Division of the Treasury is responsible for managing government and government-guaranteed debt, and ensures that all debt data is correctly recorded and updated in the system consistent with the terms and conditions of loan and guarantee agreements. The debt records are updated and reconciled on a monthly basis. The BPNG keeps records of internal debt and is required to reconcile these data with the relevant bank statements. However due to the fragmentation of responsibilities for borrowing (see Dimension (ii) below), there are gaps in the coverage of reports and not all loans are reflected in the system. Also, in the absence of a central register of loan agreements and guarantees, it is difficult to estimate the completeness of debt records.

86. **As required by the Fiscal Responsibility Act (FRA), the Financial Management Division of the DoF prepares regular reports on outstanding external and internal debt.** These reports are published in the Mid-Year Economic and Fiscal Outlook (MYEFO), the FBO, Budget Estimates, the

Insurance Plan for Inscribed Stocks, and the weekly cash flow reports. Due to incomplete records, however, the coverage of the abovementioned reports is limited.

Dimension (ii) Systems for contracting loans and issuance of guarantees — Score D

87. **The legal basis for borrowing and the issuance of government guarantees is unclear, fragmented and to some degree contradictory.** According to the FRA, government agencies are not allowed to borrow without the prior approval of the Treasurer. However, the PF(M)A 1995, section 35, states that the State may not borrow money except under and in accordance with an Act of the Parliament, and makes no specific reference to the role of the Treasurer. Other provisions on the issuance of loans and guarantees are included in the International Financial Assistance Act, the Loans and Overseas Borrowing Act, and the Securities Act. In addition, the IPBC is also mandated by the State to borrow on behalf of the SOEs under their jurisdiction. As a result of this unclear legal base, several cases have been reported of entities bypassing the Department of Treasury and contracting loans without their knowledge. Consequently, it is difficult for the Treasury to maintain proper debt records and assess the impact on the borrowing limits set by the FRA. New guidelines and policies for state guarantees and on-lending are currently being developed by the Treasury.

Dimension (iii) Preparation of a debt management strategy - Score D

88. **A medium-term public debt strategy is formulated and updated on a yearly basis, but its coverage is limited.** As indicated in Dimension (i) however, the debt records maintained by Treasury are incomplete, and the debt strategy does not incorporate complete information of the stock of outstanding debt. The strategy aims at achieving an optimal trade-off between the costs and risks of public debt and is consistent with the medium-term debt sustainability analysis and debt targets set in the MTFS and FRL. The Medium Term Debt Strategy 2013–2017 includes three main objectives to support debt management: (i) maintain debt at sustainable levels, (ii) maintain financial risks at prudent levels; and (iii) develop the domestic debt market. The debt strategy is included in the budget documents submitted to the Parliament.³²

Dimension (iv) Stock and monitoring of expenditure arrears - Score D

89. **There is no systematic recording and reporting of payment arrears either at the level of individual spending entities, and the information is not consolidated by the Department of**

³² Chapter 6 of Volume 1, *Economic and Development Policies*, December 2014.

Finance. Without such records, it is difficult to estimate the extent of payment arrears. However, the Auditor-General has drawn attention in his most recent annual report to the government's unpaid contributions to the Superannuation Fund Nambawan Super. At the end of 2011, these arrears amounted to 2 billion kina or more than 20 percent of total expenditure by the central government, and have been growing. Reports by the Auditor-General also make reference to the accumulation of expenditure arrears in departments and SNGs, though their size has not been quantified. In addition, as discussed in PI-24, departments do not always follow the established commitment control procedures resulting in the over-commitment of expenditure and the creation of arrears. The accumulation of arrears adds to the stock of public debt and creates serious fiscal risks (see PI-10).

D. Policy-based planning and budgeting

PI-14. Credible fiscal strategy

This indicator assesses whether the government adopts and announces a clear and transparent fiscal policy, including numerical targets for key fiscal aggregates, that is supported by credible macroeconomic and fiscal forecasts.

	Summary of Scores (scoring Method M2)	
	2015	Assessment
PI-14. Credible fiscal strategy	Overall Score B+	
	(i) B	(i) The government sets medium-term fiscal objectives for debt, liabilities and the fiscal balance, usually at the start of the budget preparation cycle.
	(ii) B	(ii) The government prepares credible macroeconomic and fiscal forecasts which include some assessment of the risks of economic shocks (e.g., commodity prices).
	(iii) A	(iii) The difference between forecast and outturn levels of the budget balance was less than one percent of GDP in two of the last three years.

Dimension (i) Formulation of fiscal objectives and strategy — Score B

90. **The FRA sets out broad principles of fiscal responsibility and defines clear medium-term fiscal objectives and numerical targets.** The targets defined in the Law were amended in

2012 and 2013³³ in light of the deterioration in the fiscal outlook. The Act specifies that the government prepare various reports presenting and analyzing the Government's fiscal performance. These include the Medium-Term Fiscal Strategy (MTFS) 2013-2017, the Budget Strategy Paper (BSP), the mid-year economic and financial outlook report, and the final budget outcome report. The BSP is normally issued in April to establish an appropriate fiscal framework for the budget preparation process, and to assist in setting an aggregate spending ceiling (see PI-17), but was delayed by three months in 2014. The government's fiscal strategy is summarized in Volume 1 of the annual budget documents which also includes an assessment of how well the Government has performed in delivering key fiscal principles.³⁴ To support the implementation of the fiscal strategy, the Department of Treasury prepares both a debt management strategy and an analysis of debt sustainability (see PI-13).³⁵

Dimension (ii) Preparation and use of macroeconomic forecasts as a basis for annual and medium-term budgets — Score B

91. The Treasury prepares a comprehensive set of macroeconomic and fiscal forecasts in April, July and October each year, at relevant points in the annual budget preparation cycle.

The forecasts are prepared in consultation with the Department of Finance, the Internal Revenue Commission, the PNG Customs Service, and the BPNG, which also publishes its own macroeconomic forecasts twice a year. As and when requested, the forecasts are also discussed with the Department of National Planning and Monitoring. The forecasts are used for the preparation of the annual budget.

92. The forecasts suffer from three important limitations that should be addressed in the future.

First, severe shortcomings in the estimates of inflation, GDP and other national accounts statistics make it challenging to formulate credible macroeconomic forecasts, as well as sound economic and fiscal policies. The NSO has not released estimates of GDP since 2006. While the

³³ The Law defines a limit of 30 percent on the ratio of general government debt to GDP, except in 2013 and 2014 when the limit is 35 percent; a limit of 60 percent on the ratio of the Government's liabilities, including non-contingent liabilities and guarantees; and a requirement that the budget will be in balance over the term of the Government.

³⁴ Performance is assessed by reference to the numerical targets set out in the FRA together with principles such as increasing the share of the budget devoted to key development policies, improving spending agencies' focus on expenditure effectiveness and transparency, and a requirement that no new infrastructure projects should be funded unless they have gone through a proper design and costing process.

³⁵ This analysis has been carried out as part of the annual IMF's Article IV consultations. See *Papua New Guinea—Staff Report for the 2014 Article IV Consultation—Debt Sustainability Analysis*, November 10, 2014.

Treasury Department provides GDP estimates based on data collected through business surveys, this is only a temporary solution. Urgently needed technical assistance is being provided by the IMF, the Asian Development Bank and the Australian Government to strengthen the NSO and the quality of national accounts data.

93. **Second, no systematic analysis has been carried out by the Treasury of the errors and biases inherent in its macro-fiscal forecasts.** The analysis presented in this Report, however, indicates that high variances have occurred between revenue estimates and outturns and in the composition of spending (see PI-2 and PI-3). It seems, moreover, that the forecasts may be vulnerable to political pressure. At the end of the 2015 budget cycle, for example, upwards adjustments were made to the revenue projections in order to create fiscal space for increases in development expenditures. Finally, while some assessment of the macroeconomic, debt and other risks associated with the forecasts is made internally by the Treasury,³⁶ and alternative scenarios may be presented to the Department's management (e.g., to assess the fiscal impact of the fall in commodity prices during 2014), such analysis is not incorporated in the forecasts that are presented in the budget documents.

Dimension (iii) Difference between the actual and originally forecasted general government fiscal balance—Score A

94. **The difference between the forecast and outturn levels of the budget balance was less than one percent of GDP in two of the last three fiscal years (see Table 16).** The reasons for these differences have not been analyzed by the Treasury Department. As discussed under PIs 1-3, however, projections of aggregate revenue and expenditure have been relatively accurate in the last three years, but there have been much larger variations in the composition of revenues and expenditure.

³⁶ Section H of the 2014 BSP includes a summary of key internal and external risks to the economic and fiscal outcome, but without any quantification of their impact.

Table 16. Differences in projections and outturns of the budget balance, 2011–14³⁷

Year	Budget balance, percent of GDP		
	Forecast	Outturn	Difference
2011	0.0	-0.2	-0.2
2012	0.0	-4.2	-4.2
2013	-7.2	-7.8	-0.6
2014	-5.9	n.a.	n.a.

Source: Treasury Department, *Final Budget Outturn Reports*

PI-15 Revenue budgeting

This indicator assesses the coverage and reliability of medium-term revenue projections prepared by the government, and whether estimates are made of the fiscal impact of proposed changes in revenue policy.

	Summary of Scores (scoring Method M2)	
	2015	Assessment
PI-15. Revenue Budgeting	Overall Score C+	
	(i) B	(i) Estimates are produced for the coming year and 4 out-years by the Treasury for all revenues and an explanation of assumptions is provided in the budget documents.
	(ii) C	(ii) Budget documents present information on the estimated costs of significant changes in revenue policy.
	(iii) C	(iii) Composition variance for the 3 years (2011, 2012, and 2013) was 21 per cent, 10 per cent, and 12 per cent.

Dimension (i) Medium-term forecasting of revenues — Score B

95. **The 2015 budget documents provide projections of all main categories of revenue for the period 2015-2019.** The projections were part of the wider exercise of preparing macroeconomic and fiscal projections (see PI-14). Forecasts are made three times a year, in April, June and October, and are coordinated by the Treasury in consultation with the other central departments, the two revenue collection agencies and the BPNG. The economic assumptions that underlie the projections are provided, together with a general assessment of overall risks, though risks are not specified for each category of revenue.

Dimension (ii) Assessment of the fiscal impact of proposed policy changes — Score C

³⁷ These figures are comparable to the calculations by the IMF in *Papua New Guinea: Staff Report for the 2014 Article IV Consultation*, November 10, 2014.

96. **The budget documents for 2015 contained a section describing revenue measures and developments, in which major changes in revenue policy were explained and estimates of their cost provided.**³⁸ The government has recently deepened its analysis of revenue policy issues. In September 2013, it launched a comprehensive review of PNG's revenue system, and established a Tax Review Committee, led by the Treasury to lead this work. This Committee has carried out diagnostic reviews of PNG's direct taxation system, as well as the revenue collection agencies. Three issues papers have been published,³⁹ and several more are under preparation. The Committee is scheduled to produce its final report by the end of July 2015.

Dimension (iii) Variance in revenue composition during the last three years — Score C

97. **The overall variance in revenue composition has shown a significant decline since 2011, but remains relatively high (Table 17).** The variance for some categories of revenue—particularly domestic taxes on goods and services, project grants, property income, non-tax revenues, asset sales proceeds, and the infrastructure tax credit—exceeds 15 percent.

Table 17. Variance in Revenue Composition in 2011–13 (per cent)			
	2011	2012	2013
Tax revenues			
Taxes on income and profits	16.1	2.7	4.3
Domestic taxes on G&S	27.2	36.5	16.7
Taxes on international trade	18.1	5.4	1.5
Grants			
Budgetary support			
Project grants	31.5	14.6	22.8
Other revenue			
Property income	17.1	27.3	73.9
Interest and fees from lending		97.3	100.0
Other non-tax revenues	16.9	11.0	61.3
Asset sales			100.0
Injection from trust		22.8	100.0
Infrastructure tax credit	57.7	46.6	23.9
overall variance	100.0	108.8	106.6
composition variance	20.8	10.0	11.9

Source: *Final Budget Outcome 2011, 2012, 2013*

³⁸ Volume 1, Chapter 4, *Economic and Development Policies*, December 2014.

³⁹ On mining and petroleum taxation, corporate and international taxation, together with a broad directions issues paper.

PI-16. Medium-term perspective in expenditure budgeting

This indicator assesses the extent to which medium-term strategies are developed by the various sectors, including estimates of the full cost of delivering new development projects; and whether a national medium-term budget framework (MTBF) is prepared.

	Summary of Scores (scoring Method M2)	
	2015	Assessment
PI-16. Medium-term perspective in expenditure budgeting	Overall Score D	
	(i) D	(i) A fully costed sector medium-term strategy has been prepared by only one department (the health sector), which is mainly used for the department's internal management purposes.
	(ii) D	(ii) The rating reflects that there exists no medium-term budget framework at national level.
	(iii) D	(iii) The rating reflects that there exists no medium-term budget framework at national level.

Dimension (i) Coverage and content of sector strategies — Score D

98. **Medium-term sector strategies are published for 11 sectors, including education, health, law and justice, security and transport, as part of PNG's overall framework of medium- and long-term national development vision statements and plans.** These strategies are prepared in accordance with general guidelines issued by the Department of National Planning and Monitoring, and are taken into account by agencies in preparing their annual budget submissions. Only one sector (health), however, has prepared a fully-costed strategy that takes the form of a medium-term budget framework (MTBF). This framework is mainly used by the internal management of the Department of Health in prioritizing and managing its resources, and also as input for the preparation of the Department's annual budget submission.

99. **In addition to the sector strategies, agencies contribute to the preparation of PNG's Public Investment Program (PIP) which includes a comprehensive list of development projects, with costs estimated over a period of five years.**⁴⁰ The PIP, however, suffers from a number of drawbacks, including that the projects included in the plan are not subject to an overall

⁴⁰ *Public Investment Program, 2015-2019*, Volume 3 of the budget documents for 2015. Guidelines for preparing the PIP have been issued by the Department of Planning and Monitoring—*Public Investment Programme Guidelines*, August 2007. These guidelines are in the process of being updated.

resource envelope. In addition the projected costs of the PIP comprise a mixture of capital and recurrent expenditures, while excluding most of the operational and maintenance spending that is required to implement new investment projects (see also PI-11 and PI-17). The PIP therefore does not provide all the information that is required to prepare the capital investment component of the budget, and would require much further development were it to be incorporated as part of a national MTBF.

Dimension (ii) Reconciliation of top-down and bottom-up approaches in the medium-term financial framework — Score D

100. As discussed under PI-14, the government prepares a broadly credible medium-term fiscal strategy (MTFS) comprising fiscal targets established in law, together with multi-annual projections of revenues, expenditures, the fiscal balance and debt at the aggregate level.

While the MTFS is used to prepare an overall resource envelope for public expenditure that is broken down by the Treasury into ceilings for individual spending agencies, these ceilings are prepared for a single year only and do not cover half of the budget representing capital expenditure. As noted under PI-17, the ceilings are incorporated in the Budget Circular prepared by the Treasury, but are not approved by the NEC. Nor do they act as an effective hard constraint on agencies' spending.⁴¹ For these reasons, the conditions for establishing a credible MTBF at national level in PNG do not currently exist. Various reforms currently being undertaken or planned by the authorities, however, should allow an MTBF to be developed incrementally over a period of years.⁴²

Dimension (iii) Links between the medium-term framework and annual budgets — Score D

101. Since there is currently no MTBF at national level, as discussed above, the linkages described in this dimension are not currently applicable.

⁴¹ The *2014 Budget Strategy Paper* emphasizes the persistent overspending by agencies (especially Provincial Governments) on payroll expenditure. It notes that "Overspending is often the result of thousands of employees who either do not exist; receive multiple salaries; are retired or retrenched; do not regularly attend work; or are employed outside of the budget appropriation." (page 8)

⁴² These reforms, discussed in other sections of this Report, include further unification of the capital and recurrent budget preparation processes; improving the quality of expenditure baseline estimates; creating capacity in the National Statistics Office (NSO) to produce national accounts data; strengthening the Treasury's macro-fiscal forecasting capability; and bringing fiscal reporting into line with the IMF's Government Finance Statistics (GFS) 2014 framework.

PI-17. Orderliness and participation in the annual budget preparation process

This indicator assesses the effective participation of all affected spending and revenue collecting agencies, as well as the NEC and political leadership in the budget formulation process.

	Summary of Scores (scoring Method M2)	
	2015	Assessment
PI-17. Orderliness and participation in the annual budget preparation process	Overall Score C+	
	(i) B	(i) The Budget calendar is set out in the annual Budget Circular.
	(ii) C	(ii) The Budget Circular is issued, but the ceilings are not pre-approved by the NEC and do not include development expenditures.
	(iii) C	(iii) The executive has submitted the annual budget proposal to the Parliament at least one month before the start of the fiscal year in each of the last three years.

Dimension (i) Existence of and adherence to a fixed budget calendar — Score B

102. **The budget calendar follows a regular timetable which is announced each year (with minor variations) in the Budget Circular.** In general, there was a close adherence to the calendar across government departments and agencies, both in preparing the 2015 budget and the two previous years. For the preparation of the 2015 budget, the Circular was released on July 7, 2014, giving line agencies only four weeks to prepare their budget submissions, compared with about six weeks in most other years. This Circular included the following key deadlines:

- August 4, 2014. Submission of spending proposals by all agencies to the Treasury and the Department of Planning and Monitoring.
- September 2-30, 2014. Meetings of the Budget Screening Committee (BSC)⁴³ to review the spending proposals of agencies.
- November 11, 2014. National budget tabled in the Parliament.
- November 18, 2014. Budget Speech by the Minister of Treasury.
- By December 31, 2014. Approval of the budget (Appropriation Bill) by the Parliament.

⁴³ The BSC is a high-level official committee chaired by the Deputy Secretary (Budget and Financial Management) of the Treasury Department and comprising Deputy Secretaries of other central government departments.

Dimension (ii) Clarity/comprehensiveness of and political involvement in the guidance on the preparation of the budget — Score C

103. **The Budget Circular issued in 2014 was the first to cover both the budget for capital expenditure (formerly called the Development Budget) and the budget for recurrent expenditure.** Previously, separate Circulars had been issued by the Treasury and the Department of National Planning and Monitoring. This change has improved the process of coordinating the analysis of spending agencies' budget submissions by the two departments. However, further changes will be required to achieve a genuinely integrated approach to preparing the development and recurrent budgets.⁴⁴ The Budget Circular includes ceilings for recurrent spending, but not for capital (development) spending. In the latter case, the process for achieving political agreement is relatively uncoordinated and undisciplined. In 2014, as in previous years, many proposals for new capital projects were submitted by line Ministers at a late stage in the budget process, without proper scrutiny.⁴⁵ In practice, the development budget is often used by spending ministries as an escape valve for funding projects and programs that cannot be financed through the recurrent budget.

Dimension (iii) Timely submission of the annual budget proposal to the legislature — Score C

104. **The executive has, in each of the last three years, submitted the budget to the Parliament approximately one month before the start of the fiscal year.** This narrow window reflects the Westminster tradition of budgeting that is followed in PNG, in which the Parliament has limited opportunities to propose amendments. Formally, the budget is tabled as three Appropriation Bills (covering the recurrent and development budgets together with the proposed budget for the judiciary). The budget is meant to be reviewed by a Budget Estimates Committee but this Committee has not met for several years. While the Parliament may comment on the Budget proposal, taking advantage of the opposition parties' formal right of reply, in practice its scrutiny of the appropriation bills is very limited and amendments are never proposed (see also PI-18). The

⁴⁴ The main component of the "capital" budget is in fact recurrent expenditure—in 2013, for example, the development budget comprised 2,184.5 million kina of capital expenditure and 3,603.3 million kina of recurrent expenditure. In addition, departments do not usually include in their estimates of capital expenditure the associated costs of operations, equipment (e.g., medical supplies) and maintenance.

⁴⁵ The Treasury has tried to introduce more discipline into the process through an amendment to the guiding principles of the *Medium-Term Fiscal Strategy, 2013-2017* which states that "no new infrastructure programs should be funded unless they have gone through a proper design and costing process"—see *2014 Budget Strategy Paper*, page 5. This change, however, appears to have had a limited impact to date.

Parliament's main role is to scrutinize budget execution and external audit reports through the activities of the Public Accounts Committee (see PI-30).

Table 18. Budget submission and approval dates

Fiscal Year	Budget submitted	Budget Approved
2012	November 6, 2011	December 2, 2011
2013	November 13, 2012	November 19, 2012
2014	November 11, 2014	November 17, 2014

Source: MoF

PI-18. Legislative Scrutiny of the Annual Budget Law

This indicator assesses the role of Parliament in setting fiscal policy and having its proposal reflected in the annual budget. The power to give the government authority to spend rests with the legislature, and is exercised through the passing of the annual budget law and is an important link in the chain of accountability for fiscal performance.

	Summary of Scores (scoring Method M1)	
	2015	Assessment
PI-18. Legislative Scrutiny of the Annual Budget Law	Overall Score D+	
	(i) D	(i) Scrutiny is very limited given the short time period available and the lack of any appropriately functioning parliamentary committee.
	(ii) C	(ii) Some procedures exist for Parliament's budget review but they are not comprehensive and the timetable may change from year to year.
	(iii) A	(iii) Parliament has approved the budget proposal before the start of the fiscal year for the last three years.
	(iv) C	(iv) Clear rules exist for in-year budget reallocations which allow extensive administrative reallocations but they may not always be respected.

Dimension (i) Scope of the Legislature’s Scrutiny — Score D

105. **As noted in PI-17, the scope of legislative scrutiny of the draft budget in practice is very limited.**⁴⁶ The Parliament is presented with a large volume of information to review in a period of a few weeks. These documents include the Budget Strategy Paper, the three Appropriations Bills, Tax Amendment Bills and Judiciary Institutions Bills, together with the explanatory Budget Volumes 1, 2 and 3 which are tabled after the Budget Speech by the Treasurer. . It should be noted that the PF(M)A (Section 22(3)) provides for the NEC to consult with any appropriate permanent parliamentary committee before any national budget appropriation is submitted to Parliament but this provision does not appear to be used. A Standing Committee on Budget and Estimates is constituted under Parliament’s standing orders and is briefed just before the budget is presented. However any discussion in this Committee is very brief and it has no technical support.

106. **Reflecting the Westminster system of governance, Parliament has no powers to alter the budget unless it wishes to express no-confidence in the government.** Senior officials of spending departments are not invited to appear before the Parliament to discuss their department’s appropriation. However the Opposition has the opportunity for a right of reply to the Budget Speech before the appropriation bills are passed, and it may raise issues concerning the government’s overall fiscal strategy well as the budget proposals. It also has the opportunity to comment on fiscal and budgetary policy issues later during the time set aside for general debate on government policies.

107. **In addition the FRA requires the Treasurer to table a Budget Strategy Paper (BSP) in Parliament at least three months before the presentation of the National Budget to Parliament.** The BSP sets out broad fiscal policies and parameters, the medium term outlook for government revenues and expenditures, fiscal risks and the relationship of the budget strategy to the Medium-Term Fiscal Strategy and to the Medium Term Development Strategy. The FRA also requires the Treasurer to table and publicly release a mid-year economic and fiscal outlook report by the end of July, which provides updated fiscal information to allow an assessment of performance against the fiscal strategy set out in the Budget. It appears, however, that little debate takes place in

⁴⁶ It should be noted that this limited time frame for parliamentary scrutiny is fully consistent with the Westminster tradition of budget management that operates in PNG and other Commonwealth countries. It is counterbalanced by a much stronger role for the Parliament in overseeing the execution of the budget, primarily through the PAC, discussed in PI-30.

Parliament on the BSP or the mid-year fiscal and economic outlook paper. Similarly, there is limited debate in the Parliament on any supplementary appropriation bills brought forward during the year.

Dimension (ii) Extent to which the legislature’s procedures are well established and respected — Score C

108. **As mentioned above, apart from the provisions of the FRA there is no law governing Parliament’s scrutiny of the budget.** The budget timetable is not prescribed by law and is set out each year in the budget circular; the timetable may thus change from year to year. To this extent procedures are not well established. Parliament has its internal procedures termed standing orders for the tabling of documents and legislation, including the process of scrutinizing the budget, which are observed.

Dimension (iii) Timeliness of Budget proposal approval — Score A

109. **Parliament has approved the budget proposal before the start of the fiscal year for the last three years (table 1X).** This is not governed by any legal requirement but reflects the desirability of having the budget approved by the end of the year to avoid any difficulties due to the lapsing of appropriations.

Dimension (iv) Rules for In-Year amendments to the Budget without ex ante legislative approval — Score C

110. **Clear rules exist, but they allow extensive administrative reallocation with Treasury approval and are not always respected.**⁴⁷ Reallocations of expenditure are based on quarterly reviews of budget execution. The legal and procedural rules that govern in-year budget amendments by the executive are specified in Sections 24 and 25 of the PF(M)A and in the annual Appropriations Acts. There are limits on the amount and nature of reallocations. For example transfers are not permitted between the recurrent and capital expenditure allocations. Section 3 provides for unforeseen expenditure on new services which within limits may be approved by the Treasurer without Parliamentary approval; and Section 4 provides for the transfers of appropriations between agencies or services as approved by the Secretary of the Treasury. In 2013 Section 3 reallocations amounted to some 25 million kina and Section 4 reallocations to over 1.3 billion kina. It

⁴⁷ All Directions issued for the reallocation of funds under the respective budgets for expenditure must be available through reports in the National Gazette. This forms the legal authority and basis for transfer of funds for reallocation. No such directions were published in the National Gazette for the year 2011. In the absence of the statutory approval the legitimacy of the transfers could not be validated in accordance with the requirements of the Appropriation Acts.

appears that transfers of allocations are sometimes made by departmental secretaries and the Treasury which breach the regulations. Outside the limits defined in Sections 3 and 4 supplementary appropriation bills need to be passed by Parliament.

E. Predictability and control in budget execution

PI-19 Revenue Administration Compliance

This indicator assesses whether the revenue administration system is effective in providing information to taxpayers about their rights and liabilities, and ensuring that mechanisms are in place to enforce compliance.

	Summary of Scores (scoring Method M2)	
	2015	Assessment
PI-19 Revenue Administration Compliance	Overall Score D+	
	(i) C	(i) Information is provided using many approaches, but is not always up-to-date and a right of redress is not fully operational.
	(ii) C	(ii) Basic risk management processes are in place covering approximately 96per cent of revenues.
	(iii) C	(iii) Audits and fraud investigations are conducted by IRC and Customs which collect approximately 96per cent of government revenues.
	(iv) D	(iv) The level of arrears is at 28per cent of total domestic collections.

Dimension (i) Information to individuals and enterprises about their obligations and rights concerning payments to the government — Score C

111. **PNG's main revenue collections agencies use a variety of approaches to provide information to individuals and taxpayers about their obligations and rights.** In 2013, the IRC and Customs Service, collected about 96 percent of PNG's domestically generated revenues (Table 3). Both agencies have websites from which information on legislation, legal interpretations, and other publications and forms can be downloaded and also present taxpayer education programs in communities. However the effectiveness of information dissemination via these websites is low as taxpayers have limited access to the internet and the cost is high. Also the information on websites is not always updated on a regular basis.

112. **The IRC conducts taxpayer awareness sessions in PNG's major towns, with the aim of increasing public understanding of the tax system and collection procedures.** It also

conducts targeted awareness sessions for tax agents, companies, schools, NGOs and government departments, and issues brochures and other publications on major taxes. The Customs Service has produced TV and radio programs, and also hosted regular awareness seminars to educate the public and the business community. Despite these attempts to provide more information to taxpayers, there are still many misinterpretations of tax laws.⁴⁸

113. **Provisions for the right of redress are contained in the laws establishing the IRC and Customs Service, but are not operational.** The Customs Service has not yet put in place an appeals mechanism (beyond the court system). In the case of the IRC, an Appeals Tribunal has been established but has been dormant for several years. The recent appointment of a Chairman of the Tribunal may indicate that the large backlog of unresolved cases will soon be addressed.⁴⁹

Dimension (ii) Management of risks to revenue — Score C

114. **Both the IRC and Customs Service have introduced basic risk management procedures.** The Audit Division for IRC uses a risk-based strategy when considering industry and specific law compliance issues. The Customs Service has prepared a detailed risk matrix of auditable areas for 2015.

115. **The IRC, however, has not established a unit responsible for risk management.** It does not prepare estimates of the total value of non-compliance because of the lack of adequate statistics. With assistance from Australian advisors, the IRC is beginning to draft a compliance strategy focusing on the major aspects of risk. A high priority for increasing compliance so far has been improving registration, for example by identifying businesses and individuals who have substantial tax obligations. However, progress in improving risk management for compliance has been hampered by a shortage of suitably skilled staff. With regard to the management of risks associated with internal operations, the IRC has established an Internal Audit Committee that is chaired by an externally appointed auditor. An audit of the IRC's control systems was recently conducted by Price Waterhouse Coopers.

⁴⁸ For example the foreign contractors' withholding tax is 12.5 percent, but taxpayers believe it is still 7.5 percent.

⁴⁹ According to IRC officials, records indicate that, as of March 30, 2015, 24 cases had requested a hearing. Three cases were settled or withdrawn. Twenty cases remain unresolved.

116. **The main responsibility for risk management in the Customs Service is located in its Internal Audit Division, which has developed a Strategic Risk Management Plan, identifying 12 categories of risk, together with a medium-term Internal Audit Plan⁵⁰.** In addition, Customs operates an Intelligence Division that estimates the value of the evasion of Customs' duties, and the misclassification of imports.

Dimension (iii) Audit and fraud investigation practices (including penalties) to achieve planned outputs in terms of coverage and additional revenue — Score C

117. **Both the IRC and the Customs Service conduct audits and fraud investigations.** The selection of Customs Service audits is based on an analysis of risk probabilities established through prior years' audits and industry intelligence. A *Standard Operating Procedures Manual for Post-Clearance Audits* has been prepared for the use of Customs Service officers. The IRC has prepared a high level audit without identifying taxpayers with the highest risks. The 2013 annual reports of both agencies provide information on revenue recovery⁵¹, but it is difficult to establish how these data relate to the revenue collection targets. The IRC has a stated policy of pursuing enforcement of penalties, but these rules do not seem to be consistently or uniformly applied.

Dimension (iv) Management of revenue arrears – Score D

118. **Reliable data for tax arrears in the IRC have been published for the last two years.** The IRC Annual Report for 2013 shows year-end arrears of 2.435 billion kina, of which 58 per cent are older than 12 months. At the end of 2013, the Customs Service reported estimated arrears of 40.4 million kina, but has not provided an aging profile. Total arrears for these two agencies are about 2.474 billion kina, or 27.6 per cent of total domestic revenue collections. Information on arrears for non-tax revenues is not available.

PI-20 Accounting for Revenues

This indicator assesses the extent to which comprehensive information on revenues is collected, analyzed and consolidated on regular basis.

Summary of Scores (scoring Method M1)	
2015	Assessment

⁵⁰ See PNG Customs Service, Internal Audit Plan 2013-2015

⁵¹ Customs Service 2013 Annual Report, page 23 and IRC 2013 Annual Report, pages 34-35

PI-20 Accounting for Revenues	Overall Score D+	
	(i) D	(i) Reports on collection of major tax revenues are submitted to Treasury monthly, but consolidated reports are prepared quarterly.
	(ii) B	(ii) Tax revenues are transferred weekly and non-tax revenues monthly.
	(iii) D	(iii) Complete reconciliations do not take place.

Dimension (i) Coverage and timeliness of revenue information collected by the Department of Finance — Score D

119. **Reports on the collection of major tax revenues are submitted to the Treasury monthly, but consolidated reports are prepared quarterly.** Both the Customs Service and the IRC provide detailed monthly reports broken down by specific collections. Consolidated reports are only produced by the Department of Finance on a quarterly basis, but these are not made available to the public. An aggregated overview of revenue collection is included in the MYEFO prepared by the Treasury.

Dimension (ii) Effectiveness of transfer of revenue collections to the Treasury or other designated agencies— Score B

120. **Revenue collections by the IRC and the Customs Service are transferred weekly to the Consolidated Revenue Fund in the BPNG, though Financial Instructions issued by the DoF require daily transfers.** Information on the collection of non-tax revenues is not maintained in a central database.

Dimension (iii) Frequency of complete accounts reconciliation between assessments, collections, arrears records and receipts by the Treasury or other designated agencies— Score D

121. **Officials in both IRC and Customs Service have acknowledged that reconciliations do not take place regularly, with long backlogs for some accounts.** The most recently available Auditor General’s report⁵² also highlights this problem, noting a variance of 210 million kina

⁵² Auditor General, “Audit Opinion on the Public Account of Papua New Guinea for the Year 2010”: Variances in Revenue between Departmental and Public Account Records, page 9.

between information from revenue collecting agencies and information from the public accounts records in 2010

PI-21. Predictability in the availability of funds to support service delivery

This indicator assesses the extent to which the department of finance is able to forecast commitment and cash requirements and provide reliable information on the availability of funds for service delivery.

	Summary of Scores (scoring Method M2)	
	2015	Assessment
PI-21. Predictability in the availability of funds to support service delivery	Overall Score C	
	(i) D	(i) The consolidation of the central government's cash balances does not include some of the most substantial balances.
	(ii) A	(ii) Weekly cash flow forecasts are prepared by an interdepartmental Public Debt and Cash Management Committee.
	(iii) D	(iii) The information provided on monthly cash ceilings is not fully reliable.
	(iv) C	(iv) Frequent reallocations are made with some transparency.

Dimension (i) Extent and frequency of consolidation of the central government's cash balances — Score D

122. **Government departments maintain accounts with both the BPNG and commercial banks, and the balances of the accounts are calculated on a weekly basis.** However, these balances do not include Trust Accounts⁵³ and the bank accounts of Statutory Authorities. The Auditor-General's performance audit on trust accounts estimated trust fund balances to be 2.37 billion kina at the end of 2012.⁵⁴

⁵³ Trust Accounts are a mechanism used in PNG for holding monies on behalf of a third party or setting money aside for specific tasks and/or projects.

⁵⁴ *Performance Audit on the Management and Reporting of Trust Accounts*, March 2014. This report is available on the webpage of Auditor General (www.ago.gov.pg/special-and-performance-audit-report)

123. **The government uses the Waigani Public Account (WPA),⁵⁵ which is managed by the BPNG, and comprises elements of a treasury single account.** The WPA includes government tax and non-tax revenues, although most revenues are first transferred to holding accounts. Non-tax revenues are mainly held in commercial banks, while the tax revenue holding accounts are held in the BPNG. Non-tax revenues are swept to the WPA each month while tax revenues are generally transferred after five days, net of taxation refunds and grants to provincial governments.⁵⁶ The BPNG has recently implemented its Kina Accounting and Transaction System (KATS) for non-tax revenues. KATS is a settlement system, which facilitates the transfer of funds within the banking system and should progressively improve the automation of transactions.

Dimension (ii) Extent to which cash flows are forecast and monitored — Score A

124. **A cash flow forecast is prepared for the fiscal year, and is updated weekly on the basis of actual inflows and outflows.** The process is led by a Public Debt and Cash Management Committee (PDC), which comprises both a technical committee that meets weekly, and a policy level committee that meets quarterly. The PDC is chaired by the Treasury and includes representatives of the Department of Finance, the Department of National Planning and Monitoring, and the BPNG. For the weekly meetings of the PDC, the technical committee reviews three main reports: a statement of monthly cash flows, broken down for the preceding four weeks; an annual cash plan comparing monthly ceilings and actual warrants issued; and schedule of debt flows.

Dimension (iii) Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment — Score D

125. **Departments are advised one month in advance of their ceilings through warrants issued by the Treasury Department, but the information is not fully reliable.** Warrants for recurrent expenditure generally enable Departments to pay for salaries and wages and goods and services in accordance with their annual appropriations. The development budget warrants are usually released by Treasury in accordance with advice from the DNPM. The frequent delays in issuing such warrants may have an adverse impact on major procurements. In addition, Sections 3 and 4 of the Annual Appropriation Acts provide that, in certain circumstances, the Treasurer may

⁵⁵ WPA is PNG's equivalent of a Treasury Single Account.

⁵⁶ IMF, PFTAC, Chita Marzan and Mark Silins, *Report on Cash Management*, February 2015.

apply cash rationing as a result of lower revenue collections than projected or to meet the Government's spending priorities. Such rationing is, in practice, used frequently in PNG.

Dimension (iv) Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of MDAs — Score C

126. **Significant in-year budget adjustments are frequent, but are undertaken with some transparency.** The legal and procedural rules that govern in-year budget amendments by the executive are specified in Sections 24 and 25 of the PF(M)A and in Sections 3 and 4 of the annual Appropriations Act. These adjustments are discussed in detail in PI-18. All other in-year adjustments to the budget require the passage of a supplementary appropriation bill through the Parliament, but such bills are relatively rare. For example there were two supplementary budgets in 2014, one in 2011 and none in 2012 and 2013.

PI-22. Effectiveness of payroll controls

This indicator assesses the degree of integration between personnel records, establishment list and payroll; the effectiveness of the controls applied to personnel data and payroll; and the strength of the system of payroll audits established by the Government.

		Summary of Scores (scoring Method M1)	
		2015	Assessment
PI-22. Effectiveness of payroll controls	Overall Score D+		
	(i) D		(i) Integration and reconciliation of online payroll data is in place for 80per cent of expenditure. The remainder suffers from repeated problems which take several years to be acknowledged and resolved in the system.
	(ii) D		(ii) Although the integrated IT systems allows the timely updating of most personnel records, 20per cent of personnel data has to be integrated manually and suffers from delays of up to 6 months.
	(iii) D		(iii) For most personnel data and payroll, the current control procedures are neither adequate nor generally enforced.
	(iv) B		(iv) Payroll audits have been conducted in recent years. This work needs to be strengthened, conducted on a regular basis and the findings enforced.

Dimension (i) Degree of integration and reconciliation between approved staff lists, personnel records and payroll data — Score D

127. **The personnel database and the payroll system are linked through a specialized IT system called ALESCO which covers about 80 percent of all payroll expenditures of public employees.** Not all agencies, hospitals and provincial governments, however, are included in ALESCO. In these cases, payroll is managed through another IT system, namely the PGAS.

128. **The roles and responsibilities of various departments, agencies and provincial governments in relation to the management of payroll and human resources are summarized in Figure 2.** The main responsibility for managing, monitoring and up-dating the personnel database lies with departments and provinces. Departments which have online access to ALESCO can enter directly their information on payroll and other human resource issues. In other cases, the DoF and the Department of Personnel Management (DPM) are in charge of entering information on behalf of the departments concerned, based on information provided by them.

129. **To be paid a government employee must be allocated a unique employee file number and be attached to a position.** The establishment list of staff positions is approved and is usually entered in ALESCO by the DPM. The Department of Finance is in charge of the fortnightly payroll and of the monthly reconciliation against the last payroll. The Department of Treasury prepares the annual budget (including personnel emoluments and wages) and identifies the corresponding payroll ceiling for each department through the budget circular.

Figure 2. Summary of Responsibilities and Functions for Payroll and HR Management and Budgeting

Ministries, departments, agencies	Department of Finance	Department of Treasury	Department of personnel management
<ul style="list-style-type: none"> • HR data entries for own personnel 	<ul style="list-style-type: none"> • Run the payroll fortnightly • Support hardware and network requirements with backup and recovery • Performs data entry and offline payments for offline agencies • Configure HR and Payroll Codes and rates according to the General Orders • Perform data entry of manual and offline payments at agencies request, threshold reports, disbursements, stop cheque procedures, printing, payroll distribution and weel as user access and control 	<ul style="list-style-type: none"> • Take charge the annual budget cycle • Identify payrolls personnel emoluments ceilings for each agency • Record the budget books • Take charge of reviews and supplementary budgets • Classifications codes • Identify staffing and payroll personnel emoluments ceilings for each agency • Production and publication of the budget 	<ul style="list-style-type: none"> • Overall control over government Human Resources (HR) • Establishments, Payroll Policy • Production and updating of Government general orders • Manpower audit and control over personnel emoluments expenditure • Approval of Agency establishments and positions pay award agreements • Government pay policy and industrial relations matters • Monitoring and Compliance and control over personnel emoluments expenditure • Manpower audits

Source: Department of Personnel Management (DPM).

130. **Although the ALESCO payroll system provides a good connection between personnel data and payroll, the system is not fully deployed yet.**⁵⁷ Moreover, the reconciliation of data for the overall payroll system is neither fully in place nor reliable. Some of 99 million kina paid by agencies offline in 2013 were deemed by the AGO to be illegal payments recorded. For those departments using PGAS, the interface with ALESCO suffers from repeated problems.

Dimension (ii) Timeliness of changes to personnel records and the payroll — Score D

131. **The delays in integrating personnel data changes in ALESCO depend on whether the department or agency benefits from online or offline access.** For departments which have direct access to ALESCO, changes on personnel records can be made in a timely manner. For off-line agencies, which represent about one-fifth of the payroll, the delay in entering data can be as long as six months. As information is transmitted on paper copies to the Department of Finance remotely located departments and provinces have developed a practice to compile data for several months and submit them all at once. As a result, new hires, terminations, transfers or changes in allowances suffer from substantial delays. Information flow from the Treasury is too slow to have an impact on monitoring and control.

Dimension (iii) Internal controls of changes to personnel records and the payroll — Score D

132. **For the majority of personnel data and payroll expenditure controls to ensure the integrity of data are not generally effective.**⁵⁸ Departments that benefit from direct access to ALESCO are responsible for implementing internal controls relating to their own personnel data, and thus for the quality and reliability of the data that they enter. The absence of clear framework to

⁵⁷ Roll-out programs have been put in place by DOF to get network access, and from DPM with its HR CONNECT program to systematically data cleanse at agency sites, and strictly enforce the 1 position, 1 person, 1 pay policy (commonly referred to as 'one triple P').

⁵⁸ Assessment of poor effectiveness is based on the available audit reports.

manage and monitor the access to data results in frequent mistakes or fraudulent payments in the payroll system.⁵⁹

133. **The DoF and DPM are currently taking a number of initiatives to strengthen the quality and integrity of the integrated HR Payroll Management System.** These initiatives include forming joint teams of internal audit and private sector security companies, and applying a risk-based approach to internal audit of personnel and payroll systems. In addition to “One Triple P” pilot, the “Oro Pilot” is another initiative by DPM to help improve the legality of allowance payments in payroll.

Dimension (iv) Existence of payroll audits to identify control weaknesses and/or ghost workers — Score B

134. **Both DoF and DPM have been active in strengthening their payroll audit activities, and this work has generated reports that confirm the inadequacy of existing controls.** Manpower and payroll audits were undertaken in November 2012 for four provinces, and the results presented in a report in April 2013. Previously, another set of audits were conducted in 2007. Both of these exercises showed huge discrepancies and anomalies in the salaries of teachers and public servants. More recently, the DoF’s Internal Audit and Compliance Division has conducted formal audits of the payroll system covering 14 agencies since September 2014, and has provided technical assistance to departments wanting to strengthen their internal controls. The same Division also conducted in 2013 a general audit on the overall payroll system⁶⁰ across the government which identified a large number of errors and malpractices. A recent report by the Auditor-General that includes a section on payroll comes to similar conclusions.⁶¹

⁵⁹ For instance, a recent control exercise conducted by the Financial Reporting and Compliance Division of the Department of Finance in the Madang provinces showed that in respect of payroll information for 71 employees, 18 (25 percent) were subject to overpayments and 30 (42 percent) were subject to other anomalies such as absence of contracts, breaches of the payroll rules, etc. For the Department of Health, 110 employees out of a sample of 146 tested were receiving overpayments representing K2.23 million.

⁶⁰ *National Audit of the Payroll System*, Internal Audit and Compliance Division, Department of Finance, October 2013.

⁶¹ Auditor-General of Papua New Guinea, *Annual Report for 2013*, Volume 2.

PI-23 Transparency, competition and complaints mechanisms in procurement

This indicator assesses how well the procurement system ensures that money is used efficiently and effectively.

	Summary of Scores (scoring Method M2)	
	2015	Assessment
PI-23 Transparency, competition and complaint mechanisms in procurement	Overall Score D	
	(i) D	(i) There is no central monitoring of procurement. While the Central Supply & Tenders Board has a database for contracts it manages, only roughly 30-40per cent of contracts goes thru it.
	(ii) D	(ii) According to the Central Supply & Tenders Board only 30-40per cent of procurements go thru it. Majority of other procurements use a 3-quote method.
	(iii) D	(iii) Only 1 of the information requirements is met with certainty (legal and regulatory framework).
	(iv) D	(iv) There is no independent administrative procurement complaint system.

Dimension (i) Monitoring the efficiency and effectiveness of the procurement system – Score D

135. **The legal and regulatory framework for procurement is organized hierarchically and its execution is clearly established as stipulated in the PF(M)A.** PNG has decentralized procurement arrangements. The CSTB is responsible for procurement transactions above a specified minimum threshold (currently 500,000 kina), except for procurements that are delegated to Special or Provincial Supply and Tenders Boards. Provincial Supply and Tenders Boards are established under law. Special Boards, like those that currently exist for the Department of Health and the Department of Education, are established by the Minister of Finance after consultation with the CSTB. The Central Board is also responsible for establishing the procurement rules and procedures that apply to all procurements and have published a Good Practice Manual (GPM) describing these procedures

136. **CSTB officials have estimated that only 30-40 percent of procurement contracts are processed through the central system.**⁶² The law requires the submission of annual procurement

⁶² In an article in the Papua New Guinea Post-Courier, April 1, 2015 it was stated that CSTB officer who made allegedly "negative" comments about government procurement at last week's Leadership Summit had been suspended. The officer criticized departments for not preparing annual procurement plans and said that the CSTB could not identify or confirm budgets to procure works, goods or services for contract projects.

plans by departments (including Acquisition Plans) to the CSTB, but in practice this requirement is not complied with. Moreover, the CSTB has not established a system to monitor systematically the procurement plans and contracts awarded by central government departments.⁶³ The legal framework for procurement does not apply to SOEs and Statutory Authorities.

Dimension (ii) Use of competitive procurement methods– Score D

137. **Roughly 60-70 per cent of procurements in the central government are handled by the line departments or authorities.** Most of these procurements are believed to use a “three quote” approach, which simply requires a department to obtain price quotes from three different vendors, but there is no centralized database that records the procurement method used for undertaking procurement transactions.

Dimension (iii) Public access to complete, reliable and timely procurement information– Score D

138. **Only one of the five types of information assessed by this indicator is clearly available—the legal and regulatory framework for procurement.** The table below summarizes findings for each of the types of information reviewed.

Type of Procurement Information	Assessment of Access
Legal and regulatory framework for procurement	Yes, available
Government procurement plans	No. CSTB requires, but very few departments respond
Bidding opportunities	Yes for CSTB. Unclear for others
Contract awards	Yes for CSTB. Unclear for others
Data on resolution of procurement complaints	No

Dimension (iv) Effectiveness of an independent administrative procurement complaint system– Score D

139. **There is no independent procurement complaint system.** Procedures for the resolution of procurement complaints are stipulated in the Financial Management Manual (Part 11, Division 6) and in Chapter 9 of the Good Practice Manual: Complaint Handling. All Supply and Tenders Boards must put in place and publish their procedures for managing complaints. These procedures indicate

⁶³ In an article in the Papua New Guinea Post-Courier, April 1, 2015, it was stated that a senior CSTB officer who made allegedly “negative” comments about government procurement at last week’s Leadership Summit had been suspended. The officer criticized departments for not preparing annual procurement plans and said that the CSTB could not identify or confirm budgets to procure works, goods or services for contract projects.

that complaints should be resolved at the lowest possible level—preferably by the complainant and the Supply and Tenders Board. They also specify that if no resolution is possible, then the complainant may request the Ombudsman Commission to review the process that led to the decision. The rating for this dimension is dependent on the six criteria shown in the table below. While making a complaint to the Ombudsman is possible, the Ombudsman can only make a recommendation back to the Supply and Tenders Board. The Ombudsman has no authority to suspend the procurement process or issue a binding decision.

Table 19. Complaints review mechanisms

Are complaints reviewed by a body which:	
Is not involved in any capacity in procurement transactions or in the process leading to contract award decisions	No. First review is within the supply and tenders board. Complainant can then go to the Ombudsman, but Ombudsman can only make recommendations, not issue binding decisions
Does not charge fees that prohibit access by concerned parties	Yes
Follows processes for submission and resolution of complaints that are clearly defined and publicly available	Yes
Exercises the authority to suspend the procurement process	No. While the CSTB could suspend the process, Ombudsman does not have the authority to suspend
Issues decisions within the timeframe specified in the rules/regulations	No. While this would apply to the CSTB reviews, CSTB rules do not govern Ombudsman operations
Issues decisions that are binding on all parties (without precluding subsequent access to an external higher authority)	No. While this would apply to the CSTB reviews, Ombudsman only has authority to make recommendations.

PI-24 Effectiveness of internal controls for non-salary expenditure

This indicator assesses the legal framework for internal control systems relating to expenditure commitments and payment of goods and services purchased by public entities, and compliance with this framework. The assessment is based on analysis of the Financial Management Manual and discussions with the AGO, the DoF and officials in spending departments.

	Summary of Scores (scoring Method M1)	
	2015	Assessment
PI- 24 Effectiveness of internal controls for non-salary expenditure	Overall Score D +	
	(i) C	(i) The formal segregation of duties is adequate but may be by-passed on occasions.
	(ii) D	(ii) A commitment control system exists in PGAS but appears to be only partially effective and may on occasions be by-passed.
	(iii) D	(iii) Between 50 and 75 percent of payments are executed in accordance with regular rules and procedures.

Dimension (i) Segregation of duties —Score C

140. **The legal framework for internal control is set out quite clearly.** Part II of the PF(M)A defines the financial management responsibilities of each departmental head and the power to appoint operational managers responsible for overall expenditure control. The Financial Management Manual provides for a separation of responsibilities as follows:

- requisitioning officers who request the placing of orders;
- commitment control officers who check the request against available funding;
- receiving officers who check the receipt of goods or services; and
- certifying officers who are responsible for examining expenditure claims and certifying that they are correct and may be paid.

While this framework appears adequate on paper, it is frequently ignored or by-passed in practice. The Auditor-General's annual reports of public accounts refer frequently to the lack of effective segregation of duties, or the bypassing of certain officers with the result that controls are over-ridden. For example the AGO's report for 2011 notes that expenditure was incorrectly charged to vote items for which funds were not appropriated; there are also instances noted of funds being transferred between divisions and functions contrary to the provisions of the Appropriation Acts.

Dimension (ii) Effectiveness of Expenditure Commitment Controls —Score D

141. **A commitment control system exists in PGAS but appears to be only partially effective.**⁶⁴ Part II of the PF(M)A requires each departmental head to ensure that there is no over-commitment of funds and that a review is undertaken each month to ensure that controls have been properly applied. The PGAS system records a commitment limit based on cash availability and a commitment officer is responsible for checking the availability of funds before commitments are placed. However, the level of observance of these requirements varies widely from department to department. In many cases, available funds are insufficient to prevent over commitment as not all commitments have been entered into the system. In other cases, orders are placed without being checked against the commitment.

Dimension (iii) Compliance with systems of control for making payments — Score D

142. **The PF(M)A sets out requirements to ensure that all expenditure is properly authorized and applied to the purposes for which it is appropriated.** The detailed controls over payments are set out in the Financial Management Manual. The Manual provides for an accounts payable branch to be established in every department responsible for the formulation of estimates and the monitoring of expenditures. A separate accounts branch is responsible for maintaining accounting records and reports and processing payments.

143. **The Auditor-General's Report for 2011, however, noted an extremely high rate of non-compliance with payment procedures.** Issues noted include payment vouchers not being examined for completeness and not being certified correct; missing documentation; and payments to suppliers being made on a pro-forma basis rather than using formal invoices. As with Dimension (ii) above, it appears that observance of requirements may vary between departments. Anecdotally, a significant portion of the non-compliance reflects lack of knowledge by accounts staff of the rules and requirements of the Financial Management Manual. It also reflects that there are no apparent consequences of non-compliance.

⁶⁴ In an article in the Papua New Guinea Post-Courier, April 1, 2015, page 5 the Chairman of the CSTB says that commercial banks should be vigilant before releasing funds because "a lot of payments are just going out without legally binding procurement contracts." This is a good example of the failure to apply internal controls that are stated in laws and regulations but not enforced.

PI-25. Effectiveness of internal audit

This indicator assesses the effectiveness of the internal audit function based on its scope and coverage, the quality and timeliness of audit reports, and senior management's response to the findings and recommendations of these reports.

		Summary of Scores (scoring Method M1)	
		2015	Assessment
PI-25. Effective-ness of internal audit	Overall Score D+		
	(i) B		(i) Internal audit is operational for central government units covering at least 75 percent of total budgeted revenues and expenditures.
	(ii) C		(ii) At least 50 percent of audit plan engagements are completed as evidenced by distribution of reports to appropriate parties.
	(iii) D		(iii) Management response to internal audit findings is limited.
	(iv) C		(iv) The work of internal audit units is largely based on compliance and transactions review. DoF's internal audit work is risk and systems based reflecting professional standards.

Dimension (i) Coverage of the internal audit function — Score B

144. **Internal audit is operational for central government units covering at least 75 percent of total budgeted revenues and expenditure.** The PF(M)A (Section 9) requires the establishment of internal audit units and internal audit committees in departments and public bodies and more detailed provisions are set out in Finance Instructions. Internal audits are carried out by the Internal Audit and Compliance Division of the DoF and by internal audit units in departments and agencies as well as statutory bodies. A major program to develop and improve internal audit, the Public Sector Audit Program (PSAP) which is jointly funded by Australia and the Government, has been under way since 2010 and will formally conclude in 2016.

145. **At the present time some 28 national departments and authorities have an internal audit unit including all major spending departments and agencies.** There are currently some 135 internal auditors in departments and authorities and some 31 in the Internal Audit and Compliance Division of the DoF. The DoF's internal audit function focuses on the audit of cross-cutting high-risk areas as discussed in Dimension (iv). The DoF provides training and support to its own internal auditors and those in line departments, together with administrative support to audit committees. Both IRC and Customs are developing risk based approaches in their internal audit units or equivalents.

Dimension (ii)—Implementation of audits and distribution of reports —Score C

146. **At least 50 percent of audit plan engagements are completed as evidenced by the distribution of reports to appropriate parties.**⁶⁵ Internal audit units are required to prepare an annual audit plan in accordance with the Financial Management Manual and the Standards of the Institute of Internal Auditors (IIA). An internal audit committee has been established in all major departments, with the exception of the Treasury and the DNPM. These committees approve the annual audit plan and monitor its implementation. Departmental audit committees include a representative of the DoF and the AGO and two independent external members. In a number of cases the audit committee is chaired by an external member.

147. **A representative of the Internal Audit and Compliance Division of the DoF attends all audit committee meetings.** The DoF has established a benchmark that at least 60-80 percent of the activities included in the annual audit plans prepared by departments should be implemented during the year, but in practice the completion rate is closer to 50 percent.

148. **Internal audit reports are addressed to the management of the relevant department or agency, but copies are received by the DoF and the AGO because of their participation in audit committees.** The AGO also receives a copy of internal audit reports prepared by the departments when planning its annual audit of the departments concerned.

Dimension (iii) Extent of management response to internal audit findings - Score D

149. **Management response to internal audit findings is limited.** The Chief Internal Auditor of each department or agency is directly responsible to the departmental head, but this does not guarantee that audit recommendations will be implemented. The internal audit committee plays a key role in this respect. Strong audit committees push actively for management responses and may call managers to report on progress in implementing internal audit recommendations. However, the DoF's Internal Audit and Compliance Division considers that overall the extent of management response is satisfactory in only 10–15 percent of departments and agencies that have active audit committees.

⁶⁵ The estimate is an assessment by the advisor of the Internal Audit and Compliance Division in the DoF.

Dimension (iv) Nature of audit performed and adherence to professional standards — Score C

150. **The PF(M)A and Finance Manual provide a sound framework for the operation of internal audit.** The focus of the audits is to provide assurance to management that internal controls are operating adequately, policies and procedures are being complied with and financial data are reliable. Audits are thus intended to be systems-based and to assess and test the effectiveness of control systems.

151. **However the DoF advises that in most cases the audit plan and work of internal audit units is not risk based and is focused on transactions rather than a review of systems and procedures.** The application of risk- and systems-based international auditing standards is problematical giving the existing level of skills and training of most internal auditors in PNG. Internal auditors are required to have a university degree in accounting but this does not provide any more than a basic understanding of internal audit standards. Further professional training in the application of international auditing standards is necessary.

F. Accounting, recording and reporting

PI-26. Accounts reconciliation and financial data integrity

This indicator assesses the extent to which bank accounts, suspense accounts and advance accounts, are regularly reconciled to ensure that government financial statements are accurate.

Summary of Scores (scoring Method M2)		
	2015	Assessment
PI-26. Accounts reconciliation and financial data integrity	Overall Score D+	
	(i) D	(i) Bank reconciliations are infrequent and there are many unresolved issues.
	(ii) D	(ii) Many suspense accounts are not properly cleared before the end of the year.
	(iii) D	(iii) Many advance accounts are not cleared in a timely way.
	(iv) D	(iv) Processes in place do not support financial data integrity.

Dimension (i) Regularity of bank reconciliation—Score D

152. **Bank reconciliations do not take place in a timely manner.** Despite the fact that regulations require departments and statutory authorities to undertake reconciliations on a monthly basis, many agencies do not comply with this requirement. There is a backlog of uncompleted reconciliations of more than five months. Even if the reconciliations are completed, there are likely to be many unresolved issues, some dating back to 2013. The most recent list of discrepancies is extensive and indicates that the IFMS is not reliable in recording cash flows from the BPNG. As at September 2014, the reconciliation report indicates that 1.4 billion kina is not reflected in the IFMS but has been recorded on the WPA bank statement.⁶⁶

153. **Trust accounts also fail to be reconciled on a monthly basis.** The AGO's performance audit report of trust accounts⁶⁷ noted that bank reconciliations had not been completed for 395 trust accounts. In other cases, the reconciliations were not done within the statutory limit of 14 days after the end of the month.

Dimension (ii) Regularity of reconciliation and clearance of suspense accounts — Score D

154. **Central government's suspense accounts are not cleared in a timely way.** The importance of clearing suspense accounts is based on the need for financial reports to provide a fair picture of the financial operations executed during a specified period, and diminish opportunities for corrupt behavior. Suspense accounts must be cleared before the end of the year to avoid distortions in the financial reports. The legislation in PNG requires suspense accounts to be reconciled in the same period as regular accounts. AGO reports, however, demonstrate that many departments maintain suspense accounts without clearing them at the end of the year.

Dimension (iii) Regularity of reconciliation and clearance of advance accounts—Score D

155. **Central government's advance accounts are also not cleared in a timely way.** The departments use advance accounts mainly for travel expenditures. Rules on making advance payments are set out in the Financial Management Manual. The Auditor General's report on the

⁶⁶ IMF, PFTAC Chita Marzan and Mark Silins. Report on Cash Management, February 2015.

⁶⁷ Performance Audit on the Management and Reporting of Trust Accounts, March 2014

financial statements for 2011, however, noted that many advance accounts are not reconciled and cleared. The report also noted:

- In 21 departments analyzed, weaknesses in the execution of payments and the closure of advances, failure to maintain and update a register of advances, and slowness in the recovery of salary advances;
- In the same departments, the amount of advances that had not been cleared by 31 December, 2011 was in excess of 13.6 million kina; and
- The amount of unrecorded advances identified in 11 departments analyzed was 7 million kina.

Dimension (iv) Processes supporting financial data integrity — Score D

156. **The management of records is weakly regulated.** There are two electronic information management systems used by department. IFMIS, which is used by the Departments of Finance and Treasury and four other departments, and PGAS, which is used by other departments and provinces. Administration of access rights of PGAS has been devolved to the departments who have established rules and roles of system administrators to restrict wider access to the information. In practice, it is extremely difficult for the central departments or the AGO to use data from PGAS to analyze financial trends or establish an audit trail. .

157. **Using two IT systems (IFMIS and PGAS) also compromises data integrity.** IFMIS is used to produce the public accounts. However as the majority of departments use PGAS, the financial information needs to be transferred to IFMIS. The process of consolidation requires collecting monthly summary data output from PGAS, loading it into a summary PGAS database, and then posting the information to IFMIS. This complex process has to be carried out manually, thus creating risks of errors and potential fraud since the supervision of the team carrying out the work is relatively weak. A full roll-out of the IFMIS should be able to address many of the current risks.

PI-27. Quality and timeliness of in-year budget reports

This indicator assesses the extent to which comprehensive, timely and accurate budget execution reports are prepared for management in order to monitor the performance of the budget.

	Summary of Scores (scoring Method M1)	
	2015	Assessment
PI-27. Quality and timeliness of in-year budget reports	Overall Score D	
	(i) D	(i) The coverage and classification of executed revenue and expenditure are not comparable with budget documentation.
	(ii) D	(ii) While reports on expenditure execution are prepared quarterly, those on revenue collections are only available on a semi-annual basis.
	(iii) D	(iii) There are substantial discrepancies between in-year budget execution reports and other budget documents (e.g., appropriation bills, reports from IFMS).

Dimension (i) Coverage and comparability of reports — Score D

158. **The government prepares two different types of in-year reports.** First, a quarterly report prepared by the Treasury presents the warrants allocated to the different beneficiary departments and units in accordance with the initial administrative classification of the budget. The report also presents data on the execution of the budget during the previous quarter. However, the quarterly reports do not include information on revenue collection. Second, the MYEFO, which presents information on expenditure disbursed and revenues received, is prepared by the Economic Policy Division (EPD) of the Treasury.

159. **The coverage and classification of data do not allow direct comparison with the original approved budget and the information is not up-to-date.** Regarding the quarterly reports, only information on the expenditure side is reported. For the MYEFO the data cover both revenue and expenditure but the presentation does not allow a direct comparison with the original budget. Expenditure on domestically-funded expenditure (recurrent and development) is presented in accordance with the administrative classification but in an aggregated manner, without a full breakdown of the various items. For externally-funded projects only aggregate data are available. The information on revenue is presented by economic classification and in the same format as the budget information.

Dimension (ii) Timeliness of the issue of the reports — Score D

160. **The reports on budget execution are prepared twice a year.** The quarterly reports cover only expenditure outturn and are released to the public within two weeks following the end of the related quarter. The MYEFO presents information on both sides, revenues and expenditures, and is only available every semester. This report is issued within a month after the end of the period concerned but is not available on the Treasury webpage.

Dimension (iii) The quality of the information contained in the reports — Score D

161. **The information presented in the in-year reports does not seem to be reliable.** For example, the original budget data presented in the quarterly publication on warrants show discrepancies with the reports produced by IFMIS. Similarly, there are substantial inconsistencies in the information on the budget appropriations of administrative units obtained from different sources. As noted, the quality of data presented in the in-year reports is compromised because of the use of two IT systems to produce the reports.

Administrative heads	Budget document	IFMIS	Warrant publication
207 - Treasury and Finance - Miscellaneous	1,342,333	1,262,333	1,342,333
235 - Department of Education	1,117,877	1,138,161	886,929
228 - Department of Police	270,251	19,429	270,251
519 - National Aids Council Secretariat	25,503	25,502,8	11,294
514 - University of Goroka	26,198	33,198.1	24,569
590 - Autonomous Bougainville Government	259,089	259,089	248,496
584 - East Sepik Provincial Government	209,441	209,441	209,441

Source: *Final Budget Outcome 2011, 2012 2013, reports from the IFMS and quarterly publication of warrants.*

PI-28. Quality and timeliness of annual financial reports

Consolidated and timely year-end financial statements are critical for the transparency of the PFM system. This indicator assesses the completeness, timeliness and robustness of the annual financial statements prepared by the government.

	Summary of Scores (scoring Method M1)	
PI-28. Quality and timeliness of annual financial reports	2015	Assessment
	Overall Score D	
	(i) D	(i) Annual financial statements include information on expenditures, revenues and cash balances, public debt and guarantees but no comparison with the approved budget.
	(ii) D	(ii) Last financial statement (2012) was submitted to Auditor-General's Office (AGO) on May 12, 2014.
	(iii) D	(iii) Government neither applies nor discloses in the financial statements any accounting standards used.

Dimension (i) Completeness of the financial statements — Score D

162. **The annual financial statements comprise a comprehensive set of tables,⁶⁸ as follows:**

- Statement A-Statement of Public Accounts
- Statement B-Consolidated Revenue Fund Receipts and Expenditure
- Statement C-Trust fund- receipts and expenditures
- Statement D-Statement of Sources and Application of Funds
- Statement E-Trust fund-Particular Investments
- Statement F-Statement of Direct investments, Capital Contributions and Equity Options Rights
- Statement G-Statement of Public Debt
- Statement H-Statement of Lending
- Statement I-Statement of Loans Guaranteed by Government
- Statement J-Receipts Classified under Heads of Revenues Estimates
- Statement K-Expenditure Classified under Appropriation Divisions.

163. **The quality of the annual financial statements has been criticized by the AGO.** The Auditor-General's Report on the most recent audited financial statements (2011), for example,

⁶⁸ In conformity with the Public Finance (Management) Act, Part II, Section 3, and the Financial Instructions.

disclaimed an audit opinion on the basis of the absence of relevant information to determinate the balance of the Consolidated Revenue Fund and the Trust Accounts. The government prepares a comprehensive end-year outturn report on budget execution, but the information contained in the financial statements is in summary form only and does not permit a detailed comparison to be made with the initial budget.⁶⁹

Dimension (ii) Timeliness of submission of the financial statements — Score D

164. **The PF(M)A requires the Minister of Finance as soon as practicable after the end of each fiscal year, to prepare the annual financial statements, and send it to the Auditor**

General. In practice, the timetable for reporting has been as follows:

Fiscal year	Date of submission	Time from end of the fiscal year
2011	December 13, 2013	23 months
2012	May 12, 2014	16 months
2013	To be submitted	Over 15 months

The PF(M)A does not state a dead line to submit the government financial statements, only include a timetable for reporting financial statements of public bodies⁷⁰ and for release the final budget outcome report by the Treasurer.

Dimension (iii) Transparency, completeness and consistency of accounting standards applied — Score D

165. **The PF(M)A and the financial instructions do not specifically refer to accounting standards but appear to leave it to the Secretary of the Department of Finance to define such standards as appropriate.**⁷¹ No standards have been issued by the Department of Finance, however, and the Auditor-General's reports similarly do not comment on the accounting principles and methods used by the Government in preparing the financial statements, except that the statements are prepared on a cash basis.

⁶⁹ Section 12 of the FRA states that "The Treasurer shall publicly release and table a final budget outcome report for each financial year no later than three months after the end of the financial year".

⁷⁰ Section 62 of the PF(M)A states that "A public body shall prepare and furnish to the Minister before 30 of June in each year, a performance and management report of its operations for the year ending 31 December preceding, together with financial statements[...]"

⁷¹ Section 4(1) of the PF(M)A states that the Secretary of the Department of Finance "has control and direction of all matters relating to the management of the financial affairs of the State, subject to specific directions given to him by the Minister."

G. External scrutiny and audit

PI-29. Independence and external audit of the government's financial statements

This indicator assesses the quality of the external audit function and the degree to which audits identify and promote changes to address systemic issues.

	Summary of Scores (scoring Method M1)	
	2015	Assessment
PI-29. Independence and external audit of the government's financial statements	Overall Score	
	D+	
	(i) A	(i) There is annual coverage of all government entities, using professional standards and highlighting material issues and systemic risks.
	(ii) D	(ii) In the last three years there has been a delay of at least 12 months between submission of the Public Accounts to AGO and the submission of the statements along with the audit report.
	(iii) C	(iii) There is some evidence of systematic follow up of AGO reports but it may not be timely.
	(iv) C	(iv) The AGO has adequate independence except for the determination of its budget and staffing numbers.

Dimension (i) Coverage and auditing standards of audits performed — Score A

166. **There is annual audit coverage of all government entities, using generally high professional auditing standards and highlighting material issues and systemic control risks.** All ministries and all significant statutory bodies including SOEs are audited annually as part of the audit of the Public Accounts or of their individual financial statements where applicable. This policy is stated by the AGO and is verifiable from reading Part 2 of the Auditor-General's reports where observations on individual departments and agencies are discussed in detail.

167. **The AGO's audits are performed in accordance with audit standards issued by the International Organization of Supreme Audit Institutions (INTOSAI) and accounting standards issued by the International Federation of Accountants (IFAC).** The audits follow a systems and risk based approach. The use of the AGO by the World Bank, the ADB and other donors to audit their projects is further evidence of the acceptable professional standard of AGO audits.

Dimension (ii) Timeliness of submission of audit reports to legislature on the government’s financial reports — Score D

168. **There has been a delay of at least one year in the tabling of audit reports on the government’s financial statements.** The dimension is scored based on the time between receipt of the annual financial statements by the AGO and the submission of the audit report (containing the formal audit opinion) to Parliament. Table 21 shows that, in recent years, the time taken for submission of the financial statements to Parliament has varied between 9 months and over 2 years. The AGO has stated that the main reason for this delay is the time taken for the DoF to respond to audit queries. The time lag was reduced in 2011 as the Auditor-General decided to proceed without having received responses to these queries.

Table 21. Submission of Public Accounts to the AGO		
	Received by AGO	Submitted to the Legislature
Public Accounts 2009	02 June 2010	7 January 2013
Public Accounts 2010	27 June 2011	28 June 2013
Public Accounts 2011	13 December 2013	12 September 2014
Public Accounts 2012	12 May 2014	audit still in progress
Public Accounts 2013	Not yet received	

169. **The financial statements of statutory bodies and SOEs are frequently submitted late to AGO for audit, in some cases several years after the end of the financial year.** Part 4 of the Auditor-General’s report containing observations on the financial statements of public bodies and government owned companies frequently refers to such delays.

Dimension (iii) Evidence of follow up on audit recommendations or observations by the executive or audited entity —Score C

170. **There is some evidence that the recommendations in the AGO’s reports are followed up by the audited entities, but such follow is probably neither systematic nor timely.** AGO procedures in preparing Part 2 of the audit report which comments on issues identified in the annual audit of national government departments and agencies, include entry and exit interviews All draft audit comments are first discussed with the audited entity and its written response to audit observations or recommendations is included in the report. The discussions provide an opportunity for AGO to discuss the entity’s response to previous audit observations and recommendations. The Auditor-General also provides a formal management letter to each entity at the conclusion of the

Audit drawing attention to issues which need to be addressed. However, the AGO has commented that the response to such letters is generally late and limited in scope, an assessment that was confirmed in discussions with two major departments.

171. **While the AGO may comment on the implementation or non-implementation of its recommendations, there is no formal process for departments or agencies to respond to AGO recommendations except through the Public Accounts Committee's scrutiny of AGO reports (see PI 30).** The formal "Finance Minute" system for DoF to coordinate departmental and agency responses to PAC reports on AGO reports is not functioning well. However, as noted in PI-25, internal audit committees now exist in all major departments and public bodies and their responsibilities include the follow up of AGO reports as well as of internal audit reports. The Internal Audit and Compliance Division of DoF consider the follow up is generally weak. The fact that the Auditor-General's reports refer each year to the same or similar issues which have not been addressed provides further evidence of limited follow up of his reports.

Dimension (iv) Independence of the SAI and access to information – Score C

172. **The AGO has adequate independence except that its budget and staffing levels are controlled by the executive.** The Constitution and the Audit Act provide for the independence of the AGO. The Auditor-General is the Auditor of all government bodies, has full access to all required information and freedom to select issues for audit review and to report to Parliament at any time. The Constitution also provides protection to the Auditor-General against removal from Office. However, while the Act provides for the AGO's budget to be set by the PAC and the PAC does approve the budget, in fact this is set by Treasury as part of the regular budget planning exercise. AGO funding has been largely static over the past few years although it can be noted that the Auditor-General has not sought to increase the AGO's budget. The DPM is required to approve the staffing establishment of the AGO, and this has imposed some constraints on the ability of the AGO to use staff flexibly in implementing its mandate

PI-30 Legislative Scrutiny of External Audit Reports

This indicator assesses the role of the Parliament, including the Public Accounts Committee, in ensuring accountability and promoting positive change in public financial management in response to external audit findings.

	Summary of Scores (scoring Method M1)	
	2015	Assessment
PI-30. Legislative Scrutiny of External Audit Reports	Overall Score D+	
	(i) C	(i) Scrutiny of audit reports is completed within 12 months of their receipt.
	(ii) B	(ii) The PAC holds in depth hearings on the AGO's reports focusing on bodied which have received adverse comments.
	(iii) C	(iii) PAC reports contain recommended actions for the executive but there is no follow up.
	(iv) D	(iv) Hearings are conducted in public and reports are tabled in parliament and hard copies are distributed widely but there is no functioning website.

Dimension (i) Timeliness of examination of audit reports by the legislature (for reports received within the last three years) — Score C

173. **In recent years, scrutiny of audit reports on annual financial reports has been completed by the legislature within 12 months from receipt of the reports.** PAC aims to complete the scrutiny process within 3-6 months of receipt of the AGO's reports. However, in practice, this timetable has slipped. No time period for the completion of reports is specified in any of the legislation or procedures governing the PAC. The AGO reports are presented in four parts – Public Accounts, National Government Departments and Agencies, Provincial and Local Government Bodies, Public Bodies and Public Authorities and Statutory Bodies. These reports are submitted to the Parliament at different times as the work is completed by the AGO. In addition, performance audit reports are submitted as they are completed.

174. **The Committee aims to sit 2-3 days per month but this timetable can vary.** Meetings may be postponed because of the absence of the chairman and problems in obtaining a quorum of the 14 members and the fact that the Committee has only two professional staff – a general counsel and secretary. Further, the Committee may be considering at the same time other matters raised by ministers, or other members of Parliament and issues it has decided to investigate.

Dimension (ii) Extent of Hearings on Key Findings — Score B

175. **The Committee undertakes in depth hearings on the AGO's reports.** It firstly summons the Auditor-General, followed by the secretaries of departments and chairman and chief executives of statutory bodies which have received adverse comments in the AGO's reports. AGO staff are present when other parties are examined.

Dimension (iii) Issuance of recommendations by the legislature and follow up of recommendations - Score C

176. **The PAC reports contain recommendations to be acted on by the executive but in practice there is little follow up.** The Committee's report are tabled in Parliament but are not debated. There is also a formal "Finance Minute" system under which the reports are sent to the Secretary of the DoF who is required to raise the issues with the relevant department or agency. Conclusions reached in discussions between the DoF and departments and agencies are then required to be forwarded to PAC for further consideration. However this exchange of information does not generally occur in practice and departments or DoF do not normally respond to PAC reports. Further, the Committee frequently refers cases of apparently criminal activity related to financial management to the Public Prosecutor through the Police. Of the more than 400 referrals so far none have been acted on.

Dimension (iv) Transparency of Operations of the Legislative Scrutiny – Score D

177. **The operations of the PAC are governed by the PF(M)A, the Constitution, the Parliamentary Committees Act and Parliament's Standing Orders.** Hearings are regularly conducted in public and both hearings and reports receive considerable media coverage. The Committee reports are tabled in Parliament but are not debated. Hard copies of Committee reports are distributed widely to public libraries, university libraries, provincial organizations and community groups. However the Committee's website has not been functioning for some time.

ANALYSIS OF SYSTEMS AVAILABLE TO DELIVER ON THE BUDGETARY OUTCOMES

A. Effectiveness of the internal control framework

178. **The main weaknesses in the internal control framework in PNG are discussed above under relevant performance indicators. In sum, the following issues are important to highlight:**

- The internal control system works reasonably well at many levels but is hampered by the still evolving status of the IFMS and a regulatory framework which needs updating.
- There is significant non-compliance with financial regulations due to lack of training and weak enforcement mechanisms.
- Many government institutions do not carry out their formal roles for financial management effectively. Cases of financial mismanagement are rarely prosecuted.
- The AGO provides a professional external audit service, but there is limited follow up of its reports and the related reports of the PAC.
- Internal audit is a developing function of government with limited impact at present.
- The inspection units of the DoF and the Treasury appear to have little beneficial impact.

The level of corruption is known to be high – PNG scored 145 out of 175 countries in 2014 Transparency International Corruptions Perceptions Index - and there has been little improvement in scores in recent years.

B. Assessment of the impact of PFM strengths and weaknesses

179. **The PFM system performs well in several areas.** The government has established a sound framework for fiscal policy and transparency, together with legislation (yet to be implemented) for managing natural resource revenues through a sovereign wealth fund. Some slippage in the fiscal outlook has put pressure on the government to strengthen fiscal consolidation⁷², and it has been compelled to change the targets for debt and the budget balance set out in the FRA. Macro-economic and fiscal forecasting is relatively strong and well coordinated at a technical level among the Treasury, other central departments and the BPNG. A weak link, however, is the poor quality of national accounts data which needs to be urgently remedied with external support. The annual

⁷² IMF, *Papua New Guinea—Staff Report for the Article IV Consultation*, November 10, 2014, page 6.

budget is prepared in an orderly way and the budget documentation is relatively comprehensive and informative.

180. **Serious challenges exist in other areas of PFM.** Reports by the Auditor-General on central government departments, SNGs, statutory bodies and SOEs, indicate numerous failings in the basic accounting, reporting, payment and payroll processing, bank reconciliation and control systems. Legal requirements set out in the PF(M)A and other legislation are frequently disregarded. These weaknesses are manifest not only in the spending agencies and SNGs but also reflect major failures of leadership and control in the Department of Finance itself, a situation which the new Acting Secretary is attempting to turn around.

181. **To remedy these deficiencies will require both a technical upgrading of the legal basis and procedures for PFM but also a determined effort to improve leadership and address serious governance and institutional weaknesses that are pervasive in PNG.** Many defects in the current systems arise because officers are not held to account (through sanctions and penalties, and in severe cases by the criminal code) for failures to comply with legal regulations or other mandatory requirements. Against this administrative and cultural background, any attempt to introduce progressive reforms is unlikely to have more than a limited impact.

182. **Weaknesses in PFM can be divided into four broad categories.** First, the legal framework for PFM is outdated, fragmented and inconsistent in its application across the main levels of government. Much of this framework, including the core Public Finance Management Act, dates back almost 30 years. Efforts to strengthen the enforcement of financial regulations should also be made, as sanctions are largely disregarded at present.

183. **Second, the quality and reliability of financial data needs urgently to be improved.** Measures are required to strengthen the production by the NSO of high-quality and timely national accounts data (GDP, inflation, etc.), to complete the implementation of the IFMIS, and to implement other measures noted in this Report that are necessary to strengthen the integrity of financial data.

184. **A third major area of weakness is the absence of mechanisms that would provide the Treasury with comprehensive information to quantify, control and monitor fiscal risks.** Such risks may arise as a result of the operations of statutory bodies, SOEs and provincial governments, as well as the issuance of loans, on-lending, guarantees and other contingent liabilities. The

government has recently taken some useful measures to strengthen the control of fiscal risks. These initiatives include the establishment of a branch in the DoF to monitor the financial position of statutory bodies; the development of policy proposals to control on-lending, community services obligations (CSOs) and dividends of SOEs; and the establishment of a new PPP Center, but need to be taken further.

185. **A fourth major weakness is the absence of strict discipline over the management of public resources through the excessive use of trust funds.** For example, a frequently adopted practice is to transfer unused resources stemming from poor project implementation into project trust funds towards the end of the financial year. Finally, the financial management practices of provinces, districts and lower-level governments is a conduit for generally incompetent and ineffective financial procedures, characterized by a very low level of compliance with legal requirements and poor administrative capacity.

GOVERNMENT REFORM PROCESS

A. Overall approach to PFM reform

186. **A piecemeal approach is currently taken to the planning and management of PFM reforms.** There is no overall PFM reform strategy, and no organizational structure (e.g., a steering committee chaired by a Minister or Secretary, a PFM reform division or branch in the Treasury or Department of Finance) has been established to manage the process. The donor organizations meet occasionally, however, to discuss PFM reform priorities, and have compiled a matrix of their activities, which are quite substantial.⁷³ The main activities supported by the donors and PFTAC include the following:

- 12 technical advisors provided by the Australian Government to support the central finance departments under the Strongim Gavman Program (SGP). The advisors are located in various divisions of the Treasury (5 advisors), the Department of Finance (2 advisors), the IRC (3 advisors), and the Auditor-General's Office (2 advisors).
- A similar program funded by the Australian government and UNDP to support capacity building on PFM in the provinces and districts. Currently, advisors are located in ten provinces.
- Support by the EU to the Ministry of Planning and Monitoring to improve the coordination of development assistance to PNG and alignment with national strategies and development plans.
- Support by the ADB to the Department of Finance for the establishment a performance and monitoring framework for statutory bodies.
- Support by the ADB for the reform of SOEs and the promotion of PPPs.
- Support by the World Bank for the recently completed ROSC on Accounting and Auditing, for a Public Expenditure Review in the education sector, and for the development of a new tool for analyzing public expenditure (BOOST).
- Finally, PFTAC has provided support over the past two years on strengthening efforts to implement the IFMS, improving the budget process, supporting the PEFA self-assessment, and cash management.

⁷³ The version provided to the PEFA mission team is dated May 2014.

187. **The activities noted above, especially the out-posting of Australian advisors in line divisions and provinces, have been useful in building capacity** (and filling gaps in local capacity) but lack strategic focus, while other reforms of critical importance (notably the development and roll out of the IFMIS which remains incomplete after 15 years⁷⁴) have languished.

B. Institutional factors supporting reform planning and implementation

188. **Stronger PFM systems are needed to improve fiscal performance and development outcomes.** In establishing a more structured approach to the planning and implementation of PFM reforms, and making decisions on the prioritization and sequencing of these reforms, the authorities should draw on the information and analysis provided in the earlier sections of this Report. Other relevant information is contained in two recent diagnostic assessments: the first relating to the budget process⁷⁵, and the second to cash management⁷⁶.

189. **It is important that a new reform strategy fully recognizes the relatively limited capacity that exists both in the central government and, to an even larger extent, in the provinces and districts.** This means that important reforms will likely need to be phased over a longer period than in countries with stronger human resources and communications infrastructure, and that emphasis be given to the human development, training and capacity building elements of the strategy. In divisions of the Treasury (for example, budget and economic policy) where the modernization process has already gathered some momentum, these caveats apply with less force, but resistance is likely to be met from line agencies in rolling out the reforms.

190. **It will be important for the Departments of Finance and Treasury to establish formal arrangements to support the development of a strategic framework for the design and implementation of PFM reforms.** These arrangements could include, as in many other developing countries, the establishment of a steering committee chaired by the Ministers or Secretaries of Finance and Treasury, a technical working group comprising representatives of central and line departments, and a group to coordinate funding arrangements with the donors. Consideration

⁷⁴ The appointment in 2013 of a new (Acting) Secretary to the Department of Finance has led to an encouraging revival of activity to complete the implementation of the IFMS, as well as the appointment of a Chief Information Officer in the Department to take an overview of all IT applications and interfaces related to PFM.

⁷⁵ Kris Kauffman, *Enhancing the Budget Process of Papua New Guinea*, draft Discussion Paper, December 2014.

⁷⁶ Chita Marzan and Mark Silins, IMF, Pacific Financial Technical Assistance Center (PFTAC), *Report of a Cash Management Mission to Papua New Guinea*, January-February 2015.

could also be given to setting up a small unit or branch in Finance or Treasury that reports to the Secretaries of the two main departments and is responsible for day-to-day management of the PFM reform strategy. In developing such arrangements the Departments of Finance and Treasury could consider requesting technical assistance from PFTAC or one of the donors.

191. **The Auditor-General, supported by the PAC, performs a valuable role in highlighting weaknesses in financial management and many cases of non-compliance with financial regulations.** The work of his office, however, is not facilitated by the substantial delays and inaccuracies that characterize the production of financial statements at all levels of government. Over time, it will be important to strengthen the quality and timeliness of these reports, as well as the role of the parliament in scrutinizing the executive's budget proposal, through the creation of an effective budget and finance committee possibly supported by a parliamentary budget office. This oversight function is largely a rubber-stamping exercise at present, and undermines the achievement of a credible budget.

192. **The main components of a PFM reform strategy that the PEFA mission team recommends be given high priority are shown in Table 22.** The items listed, however, constitute only a set of broad priorities. Further work will be required to develop a detailed and sequenced action plan for implementing the proposed strategy.

Table 22. Priority Areas of PFM Reform, 2015–20

Highest priority reforms

- Modernization of the legal framework for PFM, to ensure consistency effective application at all levels of government
- Completion of the roll-out of IFMS, replacement of PGAS and development of interfaces with payroll and other PFM systems along with checks and controls to ensure a high level of data quality, integrity and coherence
- Adoption of a top-down budgeting process and an MTBF at national level; strengthened budget processes (e.g., estimation of baselines and rolling forward estimates)
- Full integration of recurrent and capital budgets and strengthening of budget information presentation to make it clearer, more accessible and more coherent.
- Phasing out the use of trust accounts and their replacement wherever possible by end-year carryover provisions
- Implementation of robust frameworks for managing and monitoring the financial position and fiscal risks of SOEs, statutory bodies, and provinces
- Preparation by Treasury of a comprehensive database on government loans, guarantees and PPPs

- Improved coverage of the budget to include all hypothecated revenues, flows to and from SOEs, budget plans of SNGs, a rudimentary balance sheet for general government
- Implementation of revised classification schemes based on GFS 2014
- Improved systems of cash forecasting and cash management, including a cash management unit, timely bank reconciliation, expanded coverage of the WPA, timely recording of tax payments in IFMS, enhanced use of KATS, a universal chart-of-accounts
- Strengthened debt management practices to minimize funding costs and risks, including better fiscal and monetary policy coordination

Longer-term reforms, 2018 and later

- Complete the introduction of a treasury single account
- Development of performance-related budgeting and program budgets
- Reorganization of the Departments of Finance and Treasury
- Strengthening the oversight role of the legislature, and the establishment of an effective Budget and Finance Committee

Annex I. Disclosure of Quality Mechanism

PEFA Assessment Management Organization

- Oversight Team:

The national authorities, the main donors involved in the PFM area in PNG and the PEFA secretariat were the institutions who provided a review of the concept note and final report:

<i>Institution/Organization</i>	<i>Representatives</i>
<ul style="list-style-type: none"> • Government of PNG • European Union • International Monetary Fund 	<ul style="list-style-type: none"> • Dr. Ken Ngangan • Ms. Elisabeth Gotschi • Mr. Brian Olden, Mr. Xavier Rame and Mr. Peter Murphy
<ul style="list-style-type: none"> • World Bank • Asian Development Bank • UNDP • Australian High Commission • PEFA Secretariat 	<ul style="list-style-type: none"> • Ms. Stefanie Stallmeister • Mr. Aaron Batten • Jorg Schimmel • Mr. Derek Brown • Helena Ramos

- Assessment Manager: Ms. Eliko Pedastsaar (Fiscal Affairs Department, IMF)
- Assessment Team Leader and Team Members: Ms. Eliko Pedastsaar, Mr. Ramon Hurtado and Mr. Bruno Imbert (Fiscal Affairs Department, FAD, IMF), Mr. Richard Allen and Mr. David Shand (both members of FAD's roster of experts) and Mr. Ron Hackett (PFTAC).

Review of Concept Note and/or Terms of Reference

- Date of reviewed draft concept note: March 5, 2015
- Invited reviewers: Please see details under the oversight team. In addition peer review of the concept note and the final report shall also be conducted by Port Moresby Chamber of Commerce and Industry (Mr. David Conn), Business Council of PNG (Mr. Ernie Gangloff) and CPA PNG (Mr. Yuwak Tau).
- Reviewers who provided comments: Government of PNG, European Union, International Monetary Fund, World Bank, Asian Development Bank, PEFA Secretariat, CPA PNG and Business Council of PNG.
- Date(s) of final concept note and/or terms of reference: March 9, 2015

Review of the Assessment Report

A draft assessment was forwarded to reviewers for comments on April 15, 2015. A revised final draft assessment was forwarded to reviewers on July 10, 2015 and included tables showing response to all comments raised by all reviewers.



PEFA assessment report PNG 2015

The quality assurance process followed in the production of this report satisfies all the requirements of the PEFA Secretariat and hence receives the '**PEFA CHECK**'.

PEFA Secretariat, September 11, 2015

Annex II. Variance between Approved and Actual Expenditures

By administrative classification (millions Kina)

	2011			2012			2013		
	Budget	Actual	%	Budget	Actual	%	Budget	Actual	%
207 -Treasury and Finance - Miscellaneous	982.8	1,429.0	44.2	1,241.5	608.4	48.5	1,262.3	844.9	31.2
235 - Department of Education	775.2	641.1	18.0	808.0	569.1	26.0	1,138.2	871.4	21.3
264 - Department of Works and Implementation	553.0	504.3	9.6	832.2	419.9	47.0	950.2	661.2	28.4
240 - Department of Health	535.5	451.7	16.4	547.5	303.1	41.8	457.5	323.7	27.2
229 - Department of National Planning and Monitoring	428.6	398.2	7.9	327.5	164.2	47.3	277.3	53.2	80.3
241 - Hospital Management Services	375.5	371.4	1.9	387.5	433.6	17.6	510.6	551.0	11.0
228 - Department of Police	262.7	339.3	28.1	297.9	439.3	55.0	19.4	15.1	20.0
208 - Department of Treasury	246.3	233.8	5.9	194.5	187.5	1.3	199.0	198.0	2.3
267 - Office of Rural Development	212.4	212.3	0.9	213.5	213.9	5.3	82.9	85.0	5.4
234 - Department of Defence	191.8	182.7	5.5	188.8	240.9	34.1	196.5	185.6	2.8
519 - National AidsCouncil Secretariat	146.6	83.0	43.9	105.2	15.9	84.1	25.5	11.3	54.5
220 - Department of Personnel Management	144.1	69.3	52.3	114.3	32.9	69.8	133.6	23.2	82.1
232 - Provincial and Local Government Affairs	143.7	113.3	21.8	89.3	23.9	71.9	126.5	23.2	81.1
204 - National Statistical Office	120.7	74.1	39.1	17.6	21.0	25.3	9.1	9.3	5.1
590 - Autonomous Bougainville Government	120.7	109.9	9.6	217.7	176.2	14.9	259.1	222.5	11.7
201 - National Parliament	111.7	124.6	10.6	149.5	170.9	20.1	117.8	137.4	19.9
226 - Department of Corrective Institutional Services	110.0	122.1	10.0	141.3	148.6	10.5	23.3	23.2	2.4
225 - Department of Attorney-General	109.4	114.2	3.6	134.1	68.3	46.5	87.9	15.1	82.3
584 - East Sepik Provincial Government	108.7	128.9	17.7	94.6	104.6	16.2	209.4	174.1	14.5
577 - Southern Highlands Province	106.9	144.6	34.1	110.2	140.7	34.2	204.5	192.7	3.1
579 - Western Highlands Provincial Government	106.7	142.3	32.2	128.6	139.1	13.7	211.3	192.4	6.4
582 - Morobe Provincial Government	105.0	127.6	20.5	129.7	142.0	15.1	265.2	224.6	12.9
581 - Eastern Highlands Provincial Government	93.5	122.8	30.2	90.3	97.2	13.2	227.5	178.9	19.1
203 - Department of Prime Minister & NEC	91.6	87.1	5.7	72.3	138.5	101.5	269.0	550.8	110.5
578 - Enga Provincial Government	87.7	138.6	56.7	73.7	92.2	31.3	180.0	167.4	4.3
236 - Office of Higher Education	85.6	65.7	23.9	140.9	83.3	37.8	72.7	71.2	0.6
583 - Madang Provincial Government	79.4	97.2	21.4	86.9	109.6	32.6	209.4	195.0	4.2
514 - University of Goroka	76.7	17.0	78.0	74.3	73.0	3.2	33.2	60.4	87.0
247 - Department of Agriculture and Livestock	72.2	48.7	33.1	56.6	73.9	37.4	42.9	25.9	37.9
261 - Department of Commerce and Industry	70.0	28.1	60.3	133.6	67.8	46.7	103.4	31.8	68.4
571 - Fly River Provincial Government	69.9	74.2	5.2	65.3	67.5	8.7	116.8	96.7	14.9
223 - Judiciary Services	69.7	69.7	0.8	73.8	95.0	35.3	23.3	23.2	2.4
Other administrative heads	2,083.5	2,085.7	0.7	2,731.4	3,918.6	50.8	4,274.4	5,540.7	33.3
Total	8,878	8,952	16.8	10,070	9,581	40.3	12,320	11,980	29.9

By economic classification (millions Kina)

	2011			2012			2013		
	Budget	Actual	%	Budget	Actual	%	Budget	Actual	%
Compensation of employees	2,538.8	2,339.8	8.4	2,433.8	2,490.7	7.6	2,748.3	2,520.7	4.4
Use of goods and services	1,982.6	3,109.5	55.8	2,838.8	2,853.5	5.7	3,395.0	3,907.0	19.9
Consumption of fixed capital	4,041.1	3,194.2	21.5	4,437.1	3,846.8	8.8	5,795.8	5,119.7	7.9
Interest	430.4	416.3	3.9	459.8	433.4	0.9	671.0	484.8	24.7
Subsidies	319.2	315.9	1.7	360.7	392.5	14.4	380.6	434.1	18.9
Other expenses	-4.0	-7.1	-76.4	0.0	-2.8	-	0.0	-1.0	-
Total	9,308.1	9,368.6	23.8	10,530.2	10,014.1	7.6	12,990.7	12,465.3	11.5

Annex III. List of Organizations and Officials Consulted

Ministry/Agency/Department (structure)	Name
Auditor General's Office	Puva Heako, Owen Kose, Mio Segal, Wayne Jones, Douveri Henao
Central Supply and Tender Board (CSTB)	Edwar Oa, Hudson Leka
Department of Education	Judith Flowers, Stewart Sikras, Camillus Kanau, Jack Amenesu, Etwin Apai
Department of Finance	Stephen Nukuitu, Samuel Penias, James Kanaluga, Chris Waida, Peggy Wong, Mari Kila, Glen Kiso, Paul Niaga, Mario Cueva, Nelson Hwekwahin, Cathy Ali, Joy Layaoen, Samson Metofa, Stanley Yekep, Allan Genun, Kevin Samuel, Joe Tomi, Peter McCray, Andres Rehbein, Bill Monks, Andrew Saige, Tom Tiki, Marina Cvetanovska, Gabi Kila, Jack Amenesu, Stewart Sikaras
Department of Health	Zerah Lauwd, Pala Vanuga, Ron Hickey, Sibank Bied, Paul Doggie, Eva Lionel, Ken Wai, Navy Mulou
Department of National Planning	Floyd Lala, Laurin Janes, Reirchard Thanda, Wesley Welli, Alex Ginet, Grace Mick, Nicole Masta
Department of Personnel Management	John Kali, Michael Molck, Ravu Vagi, Ray Johns, Agnes Friday, Andrew Peter, Karen Konjib, Roy Perry
Department of Provincial and Local Government Affairs (DPLGA)	Michael Hosbo, Archie Mai, Mate Pouna
Department of Treasury	Christopher Pilyo, Samson Joshua, William Potts, Stanley Wokina, Hans Margis, Maryanne Maspok, Kayelle Drinkwater, Colin Bilio, Sylvester Kilian, Nancy Lelang, Magdelyn Kuari, Lucas Alkan, Gerald Mogia, Brian Thomas, Jeffrey Wamer, Jeffrey Walua, Roselyn Irum, Samson Mek
Department of Works	David Wereh
Donors	Chandana Kularatne (WB), Dylan Roux (DFAT), Chiara Tardivo and Paulius Strelciunas (EU)

Independent Public Business Corporation (IPBC)	Wasanatha Kumarasiri, Apaita Veioogo, Parkop Kurua
Internal Revenue Commission (IRC)	Hiyemute Waine, Grace Torova, Katie Picture, Trevor Schloss, James Napi, Ketty Masu, Steph Trinci
Nambawan Super	Charlie Gillichibi, Chetan Chopra, Garry Tunstall
National Economic Fiscal Commission (NEFC)	Hohora Suve, Patrick Painap, Fiona Dienier, Loy D'Souza, Timothy Goode, Rei Melepiea, Erwin Pouru
Public Accounts Committee	Repe Rambe. Phil Smith
PNG Customs	Julie Haung, Lilian Ovia, John Sam
Bank of PNG	Sali David

Annex IV. List of Principal PFM Laws and Regulations

- Constitution of Papua New Guinea
- The Organic Law on Provincial Governments and Local-level Governments 1998
- Public Finances (Management) Act 1995
- Provincial Governments Administration Act 1997
- Local-level Governments Administration Act 1997
- Internal Revenue Commission Act 2014
- Income Tax Act 1959
- The Public Services (Management) Act 1995
- The Audit Act 1989
- Fiscal Responsibility Act 2006
- Public-Private Partnerships Act 2014
- Independent Public Business Corporation of Papua New Guinea Act 2002
- Fiscal Responsibility Act (2006)
- International Financial Assistance Act
- The Loans and Overseas Borrowing Act 1973
- The Securities Act 1997
- The Finance Instructions

Annex V. List of Documents and Reports

<p>Budget documents :</p> <ul style="list-style-type: none"> • Appropriation Acts 2011 through 2015 • Budget circular 2015 • Budget execution reports from IFMS for 2011, 2012 and 2013 • Quarterly warrants 2013 • Mid-year economic and fiscal outlook for 2014 • Final budget outcome reports for 2011, 2012 and 2013
<p>Accounting, audit and fiscal reporting:</p> <ul style="list-style-type: none"> • Auditor-General reports for 2010, 2011, 2012 (Parts 1,2,3 and 4 – Public Accounts; National Government Departments and Agencies; Provincial and Local Level Governments; Government; Public Bodies and Government Owned Companies • Performance Audit on the Management and Reporting of Trust Accounts • AGO Corporate Plan
<p>Local government and other public entities:</p> <ul style="list-style-type: none"> • Local Government Management Laws, including rules/formulas/methods for calculating grants from the central government to local governments • List of SOEs and Statutory Bodies
<p>Other documents:</p> <ul style="list-style-type: none"> • Medium-term Debt Strategy 2013-2017 • Medium-term Development Strategy, 2011-2015 • Medium-term Fiscal Strategy 2013-2017 • Medium-term Strategy for the Health Sector • On-lending Policy 2013 • Forms for registration of non-financial assets: identification/ownership/value • Regulations and procedures for budget execution • Procedures for hiring and promoting staff and for changing personnel database • Example of SOE performance report and financial statements

Annex VI. Summary Assessment According to the 2011 PEFA Framework

Title	Title	Scoring method	National team: Self-assessment	IMF Score	IMF Assessment
PI-1	Aggregate expenditure out-turn compared to original approved budget	M1	C	B	The variance at the aggregate level between the original budget and outturn was 11.1 per cent, 0.5 per cent, 1.5 per cent respectively for 2011, 2012 and 2013.
PI-2	Composition of expenditure out-turn compared to original approved budget	M1	D	D+	
	(i) Extent of the variance in expenditure composition during the last three years, excluding contingency items		D	D	The variance in expenditure composition was 16.5per cent, 21.6per cent, 16.1per cent respectively for 2011, 2012 and 2013.
	(ii) The average amount of expenditure actually charged to the contingency vote over the last three years.		D	D	It is difficult to track the actual expenditure charged to contingencies.
PI-3	Aggregate revenue out-turn compared to original approved budget	M1	B	B	The total revenue deviation is 94.2per cent, 106.5per cent, 103.5per cent respectively for 2011, 2012 and 2013.
PI-4	Stock and monitoring of expenditure payment arrears	M1	D	D	
	(i) Stock of expenditure payment arrears and a recent change in the stock.		D	D	Without proper records of arrears, it is difficult to estimate the extent of payment arrears. However, the Auditor-General has drawn attention in his most recent annual report to the government's unpaid contributions to the Superannuation Fund Nambawan Super which at the end of 2011 amount to 2 billion kina or more than 20per cent of the fund's total central government expenditures, and have been growing.
	(ii) Availability of data for monitoring the stock of expenditure payment arrears.		D	D	There is no systematic recording and reporting of payment arrears either at the level of individual spending entities or, in consolidated form, in the Department of Finance. There has also been no comprehensive ad-hoc exercise to identify the level of outstanding arrears.

Title	Title	Scoring Method	National team: Self-assessment	IMF Score	IMF Assessment
PI-5	Classification of the budget	M1	C	C	The budget is presented, executed and reported according to an administrative and economic classification (based on GFS 1986). The existing functional classification does not follow the COFOG standard.
PI-6	Comprehensiveness of information included in budget documentation	M1	A	B	The most recent budget documentation includes 6 out of 9 elements. There is no information on fiscal deficit (according to GFS standard), debt stock, including details at least for the beginning of the current year, and financial assets, including details at least for the beginning of the current year.
PI-7	Extent of unreported government operations.	M1	NR	NR	
	(i) Level of unreported government operations		NR	NR	It is not possible to accurately determine the level of unreported extra-budgetary expenditure (other than donor funded projects).
	(ii) Income/expenditure information on donor-funded projects		B	NR	Information on all multi-lateral and bi-lateral donor financed projects and most grant financed projects are included in budget estimates, but reporting is limited. No is available ex-ante or ex-post from significant private donors.
PI-8	Transparency of inter-governmental fiscal relations.	M2	C+	B	
	(i) Transparency and objectivity in the horizontal allocation amongst Sub national Governments		B	B	Analysis of transfers for 2013 shows that roughly 65per cent are transparent and rule-based.
	(ii) Timeliness and reliable information to SN Governments on their allocations		B	A	Provinces are provided with reliable information via a budget circular in June/July, i.e. 6-7 months before the start of their fiscal year.

Title	Title	Scoring Method	National team: Self-assessment	IMF Score	IMF Assessment
	(iii) Extent of consolidation of fiscal data for general government according to sectoral categories		D	D	Information on provinces, districts and LLGs is collected by DoF, but the Government does not currently undertake a general government consolidation.
PI-9	Oversight of aggregate fiscal risk from other public sector entities.	M1	C	D	
	(i) Extent of central government monitoring of autonomous entities and public enterprises		C	D	Statutory bodies and state-owned enterprises (SOEs) create substantial fiscal risks, and have generally weak financial management practices. No procedures have been established by central departments to consolidate and monitor such risks.
	(ii) Extent of central government monitoring of SN government's fiscal position		C	D	The SNGs provide half-yearly budget execution reports to the Department of Finance on a reasonably timely basis, but their submission of annual financial statements is seriously in arrears. A consolidated overview is missing.
PI-10	Public access to key fiscal information	M1	C	C	Only 1 out of 6 required documents: (i) Annual budget documentation – Yes (ii) In-year budget execution reports within one month – No (revenue part missing) (iii) Year-end financial statements within six months – No (iv) External audit reports within six months – No (v) Contract awards - No (vi) Resources available to primary service units - No
PI-11	Orderliness and participation in the annual budget process	M2	A	B	
	(i) Existence of, and adherence to, a fixed budget calendar		B	B	The budget is prepared according to a calendar that is defined in the budget circular and usually provides line agencies with sufficient time to prepare their submissions.

Title	Title	Scoring Method	National team: Self-assessment	IMF Score	IMF Assessment
	(ii) <i>Guidance on the preparation of budget submissions</i>		A	C	<i>The circular provides comprehensive guidance to spending agencies, but applies to the recurrent budget only. Ceilings are not confirmed by the NEC at the beginning of the budget process.</i>
	(iii) <i>Timely budget approval by the legislature</i>		A	A	
PI-12	<i>Multi-year perspective in fiscal planning, expenditure policy and budgeting</i>	M2	C	C+	
	(i) <i>Multiyear fiscal forecasts and functional allocations</i>		C	C	<i>Fiscal forecasts are prepared for three years on a rolling basis, but without a clear linkage to the annual budget ceilings.</i>
	(ii) <i>Scope and frequency of debt sustainability analysis</i>		A	A	<i>Debt sustainability analysis is carried out once a year as part of the annual Article IV consultations with the IMF.</i>
	(iii) <i>Existence of costed sector strategies</i>		D	C	<i>Only one sector (health) produces a sector strategy that is comprehensive and fully costed.</i>
	(iv) <i>Linkages between investment budgets and forward expenditure estimates</i>		D	D	<i>Budgeting for recurrent and capital expenditures are largely separate exercises, though initial steps toward integration have been made (e.g., to establish a single budget circular covering all spending).</i>
PI-13	<i>Transparency of taxpayer obligations and liabilities</i>	M2	Customs C IRC B	C	
	(i) <i>Clarity and comprehensiveness of tax liabilities</i>		Customs B IRC B	B	<i>Legislation and procedures for most, but not necessarily all, major taxes are comprehensive and clear, with fairly limited discretionary powers of the government entities involved.</i>

<i>Title</i>	<i>Title</i>	<i>Scoring Method</i>	<i>National team: Self-assessment</i>	<i>IMF Score</i>	<i>IMF Assessment</i>
	(ii) Taxpayer access to information on tax liabilities and administrative procedures		Customs C IRC B	C	Information is made available thru the internet and community education programs, but in some instances may not be updated and may not be user friendly. Information on the legal framework is a particular problem because to find the current policy user must begin with the most recent comprehensive update then identify all amendments made in separate bills in all years since that comprehensive update.
	(iii) Existence and functioning of a tax appeal mechanism.		Customs D IRC C	D	Tax appeal mechanisms were established in laws governing Customs and IRC, but none is currently operational for Customs. IRC recently reactivated an appeals mechanism that had been operational earlier, but was dormant for several years because of staff and resource constraints, resulting in a build-up of back-logged cases.
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	M2	Customs C+ IRC B	C	
	(i) Controls in the taxpayer registration system		Customs B IRC B	C	There is a weak linkage of tax registration systems with one another and other relevant government systems.
	(ii) Effectiveness of penalties for non-compliance with registration and declaration obligations		Customs C IRC B	C	Penalties for non-compliance exist but changes in levels or admin would make them more effective
	(iii) Planning and monitoring of tax audit and fraud investigation programmes.		Customs C IRC B	C	Both IRC and Customs conduct audit and fraud investigations. However, it is not clear how many are related to clear risk assessment criteria or how much of their planned outputs are achieved.
PI-15	Effectiveness in collection of tax payments	M1	Customs D+ IRC C	D+	
	(i) Collection ratio for gross tax arrears		Customs TBD IRC B	D	While the rate of arrears collection by IRC was high, the total amount of IRC's arrears in 2013 was 27.8per cent of collections.

<i>Title</i>	<i>Title</i>	<i>Scoring Method</i>	<i>National team: Self-assessment</i>	<i>IMF Score</i>	<i>IMF Assessment</i>
	(ii) Effectiveness of transfer of tax collections to the Treasury by the revenue administration		Customs B IRC C	C	IRC and Customs transfers vary according to the method used by the payer to make payments. Actual practice for transfer of non-tax revenues unclear
	(iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records, and receipts by the Treasury		Customs D IRC D	D	Both IRD and Customs acknowledge major deficiencies in reconciliations
PI-16	Predictability in the availability of funds for commitment of expenditures	M1	C+	D+	
	(i) Extent to which cash flows are forecasted and monitored		A	A	A cash flow forecast is prepared for the fiscal year, and is updated weekly on the basis of actual inflows and outflows.
	(ii) Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure		C	D	Departments are advised one month in advance of their monthly warrant ceilings, but the information is not fully reliable.
	(iii) Frequency and transparency of adjustments to budget allocations above the level of management of MDAs		B	C	Significant in-year budget adjustments are frequent, but undertaken with some transparency.
PI-17	Recording and management of cash balances, debt and guarantees	M2	D+	D+	
	(i) Quality of debt data recording and reporting.		D	D	The debt records are updated and reconciled on a monthly basis, but due to the fragmentation of responsibilities for borrowing, there are gaps in the coverage of reports and all loans are not reflected in the system.
	(ii) Extent of consolidation of the government's cash balances.		B	D	The cash balances of main government bank accounts are calculated on weekly basis, but some important accounts (like trust accounts and accounts of statutory authorities) are left out.
	(iii) Systems for contracting loans and issuance of guarantees.		D	D	The legal basis for borrowing and the issuance of government guarantees is unclear, fragmented and to some degree contradictory.
PI-18	Effectiveness of payroll controls	M1	D+	D+	

<i>Title</i>	<i>Title</i>	<i>Scoring Method</i>	<i>National team: Self-assessment</i>	<i>IMF Score</i>	<i>IMF Assessment</i>
	(i) Degree of integration and reconciliation between personnel records and payroll data.		B	C	Integration and reconciliation of payroll data is in place for 80per cent of expenditure. The remainder suffers from repeated problems which take several years to be acknowledged and resolved in the system.
	(ii) Timeliness of changes to personnel records and the payroll.		C	C	Although the integrated IT systems allows the timely updating of most personnel records, 20per cent of personnel data has to be integrated manually and suffers from delays of up to 6 months.
	(iii) Internal controls of changes to personnel records and the payroll.		D	D	For most personnel data and payroll, the current control procedures are neither adequate nor generally enforced.
	(iv) Existence of payroll audits to identify control weaknesses and/or ghost workers.		D	C	Payroll audits have been conducted in recent years. This work needs to be strengthened, conducted on a regular basis and the findings enforced.
PI-19	Competition, value for money and controls in procurement	M2	D	D	
	(i) Transparency, comprehensiveness and competition in the legal and regulatory framework.		C	C	Of the 6 criteria only 3 are met. The procurement legal framework is organized hierarchically and precedence is established. The legal framework is available through the internet and other means. The framework applies to all procurement undertaken using public funds. However, the situations in which methods other than open competition can be used and how this can be justified are not clearly defined. The framework provides for public access to bidding opportunities, but not for procurement plans, contract awards and data on resolution of procurement complaints.
	(ii) Use of competitive procurement methods.		D	D	Reliable data is not available on the value of contracts awarded by methods other than open competition. There is no systematic monitoring of procurements that are exempted from open competitive practice, nor of procurement that does not follow prescribed legal procedure.

<i>Title</i>	<i>Title</i>	<i>Scoring Method</i>	<i>National team: Self-assessment</i>	<i>IMF Score</i>	<i>IMF Assessment</i>
					competitive practice, nor of procurement that does not follow prescribed legal procedure
	(iii) Public access to complete, reliable and timely procurement information.		D	D	Of the 4 criteria for this dimension, only 1 is satisfied. The Government does not publish procurement plans, contract awards, or data on resolution of complaints. It does publish bidding opportunities.
	(iv) Existence of an independent administrative procurement complaints system.		D	D	The Government has no specialist, dedicated independent procurement complaints body. The independent administrative complaints body currently is only the Ombudsman, but it is not comprised of experienced procurement professionals familiar with the legal environment for procurement, and does not include any representatives of the private sector and civil society.
PI-20	Effectiveness of internal controls for non-salary expenditure	M1	D+	D+	
	(i) Effectiveness of expenditure commitment controls		D	D	A commitment control system exists in PGAS but appears to be only partially effective and may on occasions be by-passed.
	(ii) Comprehensiveness, relevance and understanding of other internal control rules/procedures.		C	C	Good regulatory framework but significant lack of understanding - lack of capacity and training.
	(iii) Degree of compliance with rules for processing and recording transactions		D	D	Significant degree of non-compliance reflecting lack of capacity and culture of non-compliance. The Auditor-General's Report for 2011, however, noted an extremely high rate of non-compliance with payment procedures.
PI-21	Effectiveness of internal audit	M1	D+	D+	
	(i) Coverage and quality of the internal audit function.		C	B	Internal audit exists in a central unit in DoF and in most departments.

<i>Title</i>	<i>Title</i>	<i>Scoring Method</i>	<i>National team: Self-assessment</i>	<i>IMF Score</i>	<i>IMF Assessment</i>
	(ii) Frequency and distribution of reports		C	C	Reports are issued regularly for most entities but may not be submitted to AGO or DoF.
	(iii) Extent of management response to internal audit function.		D	D	There is limited management response to internal audit reports despite existence of audit committees in many entities
PI-22	Timeliness and regularity of accounts reconciliation	M2	D	D	
	(i) Regularity of bank reconciliation		D	D	Bank reconciliations do not take place in a timely manner, despite the fact that regulations require departments and statutory authorities to undertake them on a monthly basis. Many agencies do not comply with this requirement and there is a backlog of uncompleted reconciliations of more than 5 months. Even if the reconciliations are completed, there are likely to be many unresolved issues, some dating back to 2013.
	(ii) Regularity and clearance of suspense accounts and advances		D	D	Many suspense and advance accounts are not properly cleared on time before the end of the fiscal year.
PI-23	Availability of information on resources received by service delivery units	M1	D	D	No government systems are in place that assess whether resources allocated to service delivery units have been delivered as planned. However, some partial studies have been carried out, as part of the Public Expenditure Review of the education sector, and in the health sector.
PI-24	Quality and timeliness of in-year budget reports	M1	C+	D	
	(i) Scope of reports in terms of coverage and compatibility with budget estimates.		C	D	The coverage and classification of executed revenue and expenditure are not comparable with budget documentation
	(ii) Timeliness of the issue of reports		A	D	While reports on expenditure execution are prepared quarterly, those on revenue collections are only available on a semi-annual basis

<i>Title</i>	<i>Title</i>	<i>Scoring Method</i>	<i>National team: Self-assessment</i>	<i>IMF Score</i>	<i>IMF Assessment</i>
	(iii) Quality of information		C	D	There are substantial discrepancies between in-year budget execution reports and other budget documents (e.g., appropriation bills, reports from IFMS)
PI-25	Quality and timeliness of annual financial statements	M1	C+	D	
	(i) Completeness of the financial statements		C	D	Annual financial statements include information on expenditures, revenues and cash balances, public debt and guarantees but no comparison with the approved budget.
	(ii) Timeliness of submissions of the financial statements		A	D	Last financial statement (2012) was submitted to Auditor-General's Office (AGO) on May 12, 2014
	(iii) Accounting standards used		C	D	The PF(M)A and the financial instructions do not specifically refer to accounting standards but appear to leave it to the Secretary of the Department of Finance to define such standards as appropriate. No standards have been issued by the Department of Finance, however, and the Auditor-General's reports similarly do not comment on the accounting principles and methods used by the Government in preparing the financial statements, except that the statements are prepared on a cash basis.
PI-26	Scope, nature and follow-up of external audit	M1	C+	D+	
	(i) Scope/nature of audit performed (including adherence to auditing standards)		B	B	All entities of central government are audited annually. A range of financial and audit reports are performed which generally adhere to professional auditing standards
	(ii) Timeliness of submission of audit reports to the Legislature		D	D	Audit reports are generally submitted to the legislature more than 12 months after the end of the period
	(iii) Evidence of follow up on audit recommendations		C	C	A formal response is made by audited entities in the AGO report but there is little evidence of any follow up

<i>Title</i>	<i>Title</i>	<i>Scoring Method</i>	<i>National team: Self-assessment</i>	<i>IMF Score</i>	<i>IMF Assessment</i>
PI-27	Legislative scrutiny of the annual budget law	M1	D+	D+	
	(i) Scope of the legislature scrutiny		C	D	The legislature's review is extremely limited. No functioning budget or estimates committee exists to undertake detailed scrutiny
	(ii) Extent to which the legislature's procedures are well established and respected.		B	B	The review is not governed by any legal framework. Simple procedures exist which are respected.
	(iii) Adequacy of time for the legislature to provide a response to budget proposals both the detailed estimates and, where applicable, for proposals on macro-fiscal aggregates earlier in the budget preparation cycle (time allowed in practice for all stages combined)		D	D	The legislature has less than one month to consider the budget. In 2014 the time was only one week.
	(iv) Rules for in-year amendments to the budget without ex-ante approval by the legislature		C	C	Clear rules exist which allow for extensive administrative reallocation as well as expansion of total expenditure
PI-28	Legislative scrutiny of external audit reports	M1	C+	C+	
	(i) Timeliness of examination of audit reports by the legislature		C	C	Reports are completed within 12 months of receipt by the PAC (last three years)
	(ii) Extent of hearing on key findings undertaken by the legislature		A	B	In depth hearings on key findings take place with the Auditor-General and responsible officers from audited entities, which have received adverse audit comments
	(iii) Issuance of recommended actions by the legislature and implementation by the executive		C	C	Actions are recommended but are rarely acted on by the executive
D-1	Predictability of Direct Budget Support	M1	NR	NA	PNG does not receive any direct budget support. Therefore this indicator is not applicable.
	(i) Annual deviation of actual budget support from the forecast provided by donor agencies at least six weeks prior to the government submitting its budget proposals to the legislature		NR	NA	

<i>Title</i>	<i>Title</i>	<i>Scoring Method</i>	<i>National team: Self-assessment</i>	<i>IMF Score</i>	<i>IMF Assessment</i>
	(ii) In-year timeliness of donor disbursements		NR	NA	
D-2	Financial information provided by donors for budgeting and reporting	M1	D+	D+	
	(i) Completeness and timeliness of budget estimates by donors for project support.		C	A	In recent years there is been a coordinated effort to improve the estimates of external resources for the budget formulation. Majority of external aid is reflected in the budget estimates.
	(ii) Frequency and coverage of reporting by donors on actual flows for project support.		D	D	There is no regular reporting by donors.
D-3	Proportion of aid that is managed by use of national procedures	M1	C	NR	It was not possible to calculate the share of aid managed by use of national procedures.

