

# FMM 01.2 Framework of PFM legislation and directions

Public financial management (PFM) framework refers the set of laws, rules, systems, processes, and procedures the Government uses to collect revenue, allocate available funds across competing priorities, expend those funds in purchasing goods, works or services, account for the funds spent, and audit the results of that spending.

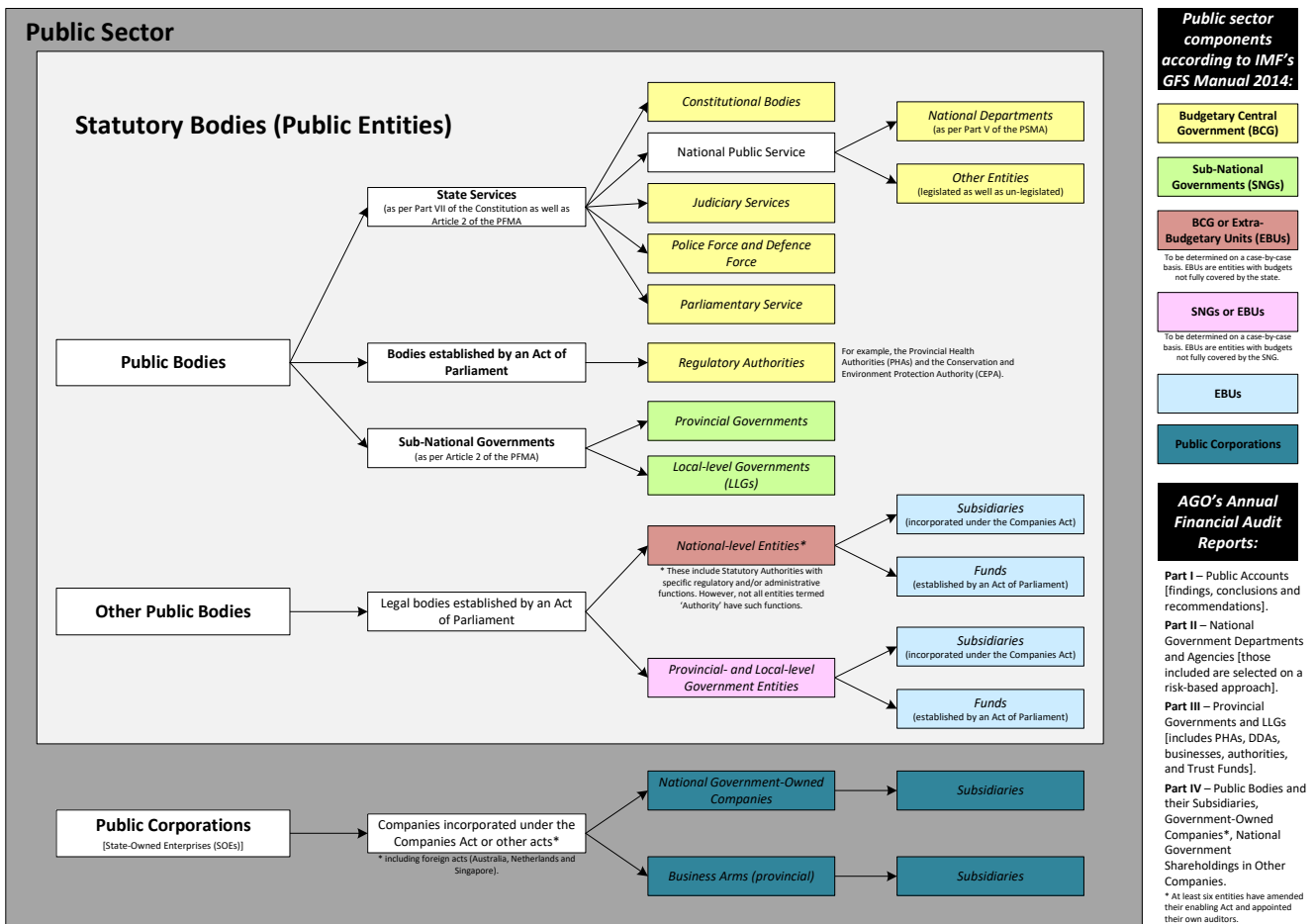


Figure 1 Legislative Framework

All revenue collected, every expenditure made, any use of public property, regardless of how small, must be transacted in accordance with the PNG Laws, particularly, the Public Finances (Management) Act (PFMA).

A basic understanding of this legal framework is important for all persons entrusted with public resources for two reasons:

1. Failure to act within the authorisations is a disciplinary risk of suspension, disbarment, and even court action (Part XI, PFMA).
2. Working within this framework protects public servants and accountable officers from accusations of misuse of public resources or attempts by others to for them to act illegally.

The figure below shows how the principles of the Constitution are translated into budgetary or financial processes and practices.

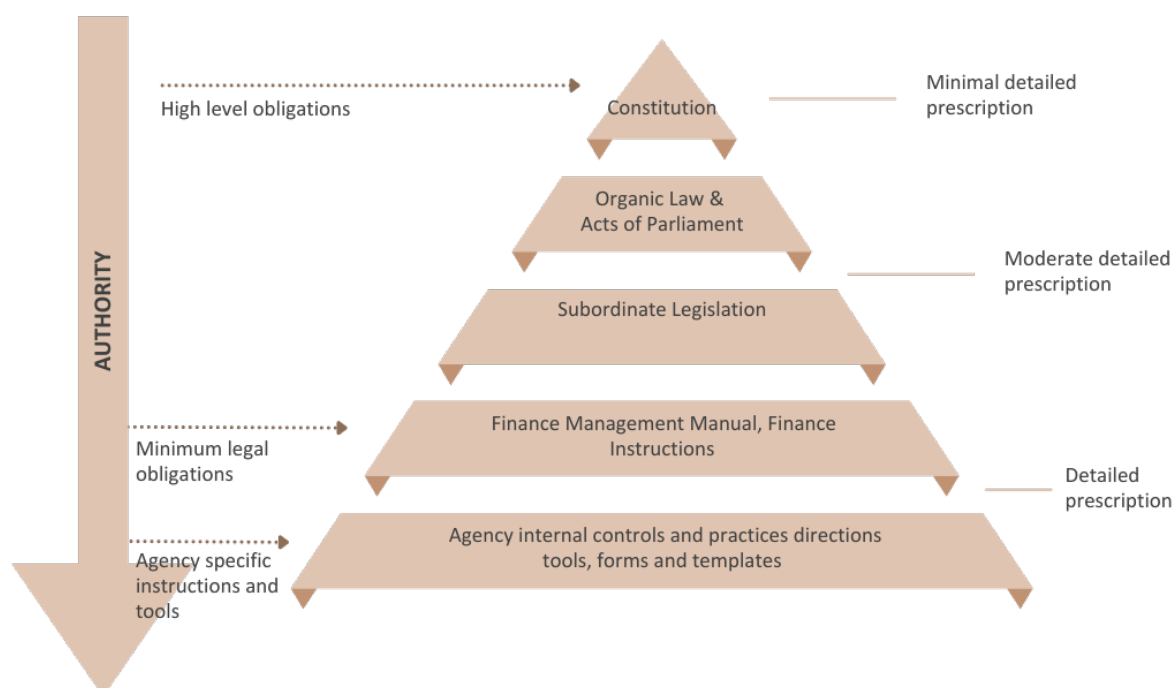


Figure 2: Legal Framework Hierarchy

Under the **Constitution**, Section 209 provides authority for the Government to impose taxes, obtain loans, and incur expenditures subject to authorisation and control through Acts of Parliament. In Part VIII, Supervision and Control, the Constitution provides more detail on roles and responsibilities of Parliament, in working with the Prime Minister and the National Executive Council (NEC) in passing laws to regulate PFM.

To strengthen oversight on the use of public moneys and assets, the Constitution provides for an independent Auditor-General who has the authority to inspect, audit and report to Parliament on Government accounts.

Another oversight body is the Public Accounts Committee, and is a permanent Parliamentary Committee further empowered to examine public accounts.

Parliament, from its powers under the constitution has passed a number of key laws for PFM the most significant of these is the **Public Finances (Management) Act 1995** (as amended) and the **National Procurement Act 2018**. For sub-national governments, the other important laws are the Organic **Law of Provincial Government and Local-Level Government 1998** ('Organic Law') and **District Development Authority Act 2014**.

The Organic Law adds detail to the rights of PGLLG in relation to the National Government. Section 82 of the Organic Law outlines sub-national finances derived from National Government Grants and their own revenues. The Organic Law further stipulates the kinds of taxes and fees PGLLG's are authorised to raise and retain (Sections 86 and 87), benefit from natural resources (Section 98) and the authority for revenue sharing of certain National Government revenues (Section 99).

Other key laws include, but not limited to:

- Annual **Appropriations Acts** are the legal authority to implement the National Budget. Passage of these acts is the authority to prepare the accounts that will be used during that fiscal year to record receipts and expenditures.
- The **Non-Tax Revenue Administration Act 2021** provides a more consistent approach to the imposition and collection (receipting) of non-tax revenue charges. Non-tax revenues are those collected through fees and other charges for services provided by public and statutory bodies. Changes to fees are generally imposed through notices published in the National Gazette.
- The **Electronic Transaction Act 2021** is not specifically related to PFM, but its implementation will impact the move to introduce more efficiency into government operations. This act establishes the legal equivalency of electronic signatures and documents to physical signatures and documents.
- The **National Procurement Act 2018** (NPA) centralises all public procurements under the National Procurement Commission (NPC). The NPA aligns public procurement to international best practices and promotes fair competition for government contracts. It also establishes the role and authorities of the Authority to Pre-Commit (APC)

Committee. Under this act, the Board of the NPC has the authority to issue instructions.

- ***Fiscal Responsibility Act 2006*** to promote economic and financial transparency and accountability.
- ***Provincial Government Administration Act 1997*** and ***Local Level Government Administration Act 1997*** establishes the system for Provincial and Local Level Governments, their administration including the powers to establish Special Purpose Authorities.
- ***Intergovernmental Relations (Functions and Funding) Act 2009*** lays out the roles and functions of PG-LLG, defines the formula to calculate subnational grants, and the distribution of shared national revenue.
- ***Income Tax Act 2025 and other related acts on taxes including the Goods and Services Tax Act 2003, Departure Tax Act 1980, Customs Tariff Acts*** etc. These Acts and Regulations require agencies to comply with a range of obligations including GST, withholding and other employer obligations.
- ***Organic Law on the Sovereign Wealth Fund 2015*** set shares of resource taxes and state-company dividends into two sub-funds—a Stabilisation Fund for smoothing budget revenues and a Savings Fund for long-term wealth through the national budget.
- Other legislation includes the ***Proceeds of Crime Act, Anti-money Laundering and Counter Terrorism Financing Act, Claims Against the State and District Development Authority Act.***

**Finance Instructions** are issued to provide guidelines and procedures as needed when a change in government policy requires a procedural change, a new procedure is adopted, or to resolve an issue with an existing procedure.

Section 117 of the PFMA gives the Finance department head the authority to issue instructions and manuals to “better manage and control public moneys and assets.”

The **Finance Management Manual** is also issued under this authority and both issued instructions and manuals issued under Section 117 have the same effect as law.

There are other guidance and practice manuals that are issued, including **Circular Instructions**, these are guidance and information documents there to

assist agencies in complying or interpreting public finance practices, procedures and processes.

**Procurement Instructions** also have the force of law and are issued by the National Procurement Commission Board.

In addition to the guidance from the Finance department head, the Departmental head of public body or statutory authority is responsible for establishing process and practices not inconsistent with the PFMA, other legislation, and issued instructions, guidelines or manuals issued by the Finance department head.

For budgetary management, the Department of Treasury and the Department of National Planning and Monitoring jointly issued the *Budget Manual* in 2008. This document assists officers in departments and agencies responsible for preparing budget submissions understand the processes for compiling the National Budget and what budgetary controls are in place to prevent over-appropriation and over-commitments of their budgets.

The *Good Procurement Manual* was released by the National Procurement Commission Board.

The *SIP Administration Guidelines* are jointly issued by the Department of Implementation and Rural Development.

The *PIP Guidelines (Public Investment Program)* issued by the Department of National Planning that provides the framework and templates for all national budget submissions for public investment program funds.

These manuals are examples of detailed instructions that are issues to assist agencies in meeting their PFM obligations.

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