

## FMM 03.19 Expenses

### 19.1 Authority and Prescribed Requirements

- Public Finances (Management) Act 1995 (PFMA):
  - Section 14 states no expenditure of public money is permitted except as authorised under an Appropriation Act or by other specific legislation.
  - Section 32 establishes financial delegations for approving expenditures.
  - Section 33 outlines payment delegation powers for the disbursement of public funds.

### 19.2 Relevant Standards and Supporting Documentation

- IPSAS 1 (Presentation of Financial Statements) requires proper classification and disclosure of expenses.
- IPSAS 19 (Provisions, Contingent Liabilities, and Contingent Assets) provides guidance on recognising expenses related to provisions.
- IFMS Training Manual “Accounts Payable”
- Finance Forms 3 and 4 (FF3 and FF4 including A & B formats)

### 19.3 Minimum Responsibilities

Departmental heads are required to maintain compliance and approvals of expenditures within financial delegation limits. They also ensure all expenses are budgeted, authorised, and aligned with agency priorities.

Heads of finance are to ensure that validation of all expenses comply with approved budgets and financial policies and process payments in compliance with Section 33 delegations.

### 19.4 Mandated Policy

#### 19.4.1 Expense Recognition and Accounting Treatment

- 1. Expenses must be recognised when paid which is defined as cash outflows from the bank account including cheques drawn whether presented or unrepresented.**
- 2. A commitment is defined as claim approved by a Section 32 financial delegate under a Warrant, except for grants, transfers, finance charges, and other non-reciprocal costs, which are recognised when paid.**

3. **A commitment register for major commitments must be maintained (refer to FMM Volume 4).**
4. **All expenses must be recorded in IFMS (or approved finance system) and accurate classification must be used to facilitate proper financial reporting and auditability.**

**19.4.2 Reconciliations and Financial Oversight**

5. **Agencies must conduct monthly reconciliations of accounts and balances to verify that expenses are properly recorded.**

Supplier and vendor payments must be reviewed and reconciled, ensuring that outstanding liabilities, commitments, and payments are accurately reflected.

All variances in reconciliations must be investigated and resolved in a timely manner to prevent misstatements or financial irregularities.

**19.4.3 Use of IFMS and Manual Forms**

6. **Agencies operating on the IFMS are not required to use manual forms (FF3 and FF4) for raising requisitions and processing payments where the following conditions are met:**

- The IFMS workflow is used for obtaining proper financial delegations and approvals.
- All procurement and supporting documentation is uploaded and attached to transactions within IFMS, ensuring transparency and auditability.

7. **For entities not on IFMS or business continuity procedures are triggered, manual forms Finance Form 3 and 4, must be used following standard financial procedures and approvals.**

**19.5 Non-Mandatory Guidance**

**19.5.1 Types of Expenses and Treatment**

<b>Expense Type</b>	<b>Definition</b>	<b>Treatment</b>
Operational Expenses	Costs incurred in day-to-day government functions (e.g., utilities, salaries).	Record as incurred within the fiscal year and ensure compliance Warrants.

Employee Expenses	All expenses incurred for employee costs including, but not limited too, salaries, superannuation, payroll deductions, taxation and retirement of exit payments	Recorded as incurred within the fiscal year.
Capital Expenditures	Spending on assets that provide long-term benefits (e.g., infrastructure, equipment).	Record as an asset.
Grants and Transfers	Payments to third parties (e.g., NGOs) for specific purposes.	Ensure compliance with grant agreements and recorded when paid.
Commitment and Provisions	Anticipated liabilities or expenses (e.g., legal claims, employee benefits).	Record a note disclosure of provisions and contingent liabilities.
Travel and Allowances	Costs incurred for official travel and employee-related reimbursements.	Ensure compliance with approved travel policies and recognised as paid.
Inter-government transfers	Expenses or transfers between agencies either as appropriations or payment of fees, charges, taxes etc.	Recorded as paid within the fiscal year.
Debt Service Payments	Interest and principal repayments on government borrowings.	Schedule payments based on agreements and record under financial costs. Reported as incurred

### 19.5.2 Understanding warrants versus appropriations under the PFMA

Under the PFMA appropriations and warrants serve distinct but related roles in the budget execution process.

#### 19.5.2.1 What is an Appropriation?

An appropriation is the legal authority granted by Parliament to spend public money. It represents the maximum limit of expenditure that a government agency is allowed to incur within a financial year.

Appropriations are set through the National Budget process and are contained in the Annual Appropriation Act.

It does not mean cash is available—it only gives the legal right to incur expenditure, subject to cash flow availability and warrants.

Funds appropriated but not warranted remain unusable until a warrant is issued by the Department of Treasury.

#### *19.5.2.2 What is a Warrant?*

A warrant is a formal expenditure release authority issued by the Department of Treasury that allows an agency to access its appropriated funds.

No expenditure can be committed unless a warrant has been issued, even if the appropriation exists.

A warrant must be issued before an expense can be committed in most cases. This ensures:

- The government has sufficient cash to cover the commitment.
- Spending is controlled and aligned with budget priorities.
- Unwarranted commitments do not lead to arrears or cash shortfalls.

However, there are exceptions for contractual obligations:

- For multi-year contracts or legal commitments (e.g., rental agreements, supply contracts, service agreements), the commitment exists once the contract is signed.
- However, actual payments under the contract still require a warrant before they can be processed.
- If a contract is entered into without a warrant covering the payment, it creates an unpaid liability (arrears) that must be accounted for and prioritised in future warrant releases.

If an agency enters into a contract without securing a warrant, payments might be delayed due to cash flow constraints. The contract remains valid, but the government must find funds in a future warrant release to pay the claim. If a supplier submits a claim for payment but no warrant is available, the claim remains unpaid and becomes an arrears liability.

<b>Further Information</b>	frcd@finance.gov.pg
<b>Version</b>	1.0
<b>Date Issued</b>	30 June 2025