

## **FMM 03.45 Losses and Deficiencies – Writing Off**

### **45.1 Authority and Prescribed Requirements**

- Public Finances (Management) Act 195 (PFMA) Section 108 provides for the writing off of losses or deficiencies of public moneys, irrecoverable amounts of revenue, irrecoverable debts and overpayments and value of lost inventory and other assets.

### **45.2 Standards and Supporting Documentation**

Nil

### **45.3 Minimum Responsibilities**

The Minister for Finance has the power to write off and any power exercised to be published in the National Gazette. The Minister of Finance also has the power to delegate this power.

The Finance department head ensures that all financial losses are investigated before granting approvals and is required to maintain a record of all write-offs and waivers for financial reporting and audit.

Departmental heads are to submit applications for write-offs and waivers with supporting documentation ensuring write-offs and waivers are used only in exceptional circumstances.

Heads of Finance are to process approved write-offs and waivers in IFMS and ensure all write-offs and waivers are justified and recorded.

### **45.4 Mandated Policy**

"Loss or deficiency of public moneys" is a physical loss by an accountable officer of any money or assets or anything where the 'resources' did not realise their full value or where there was expenditure that should not have been paid. It does not include accounting adjustments or losses that do not affect the fiscal position (such as accounting errors).

As Parliament does not approve in advance for potential future losses when passing the Appropriations Act, when it occurs it gives rise to greater scrutiny and control than other payments.

- 1. The department head is required to establish and maintain a Register of Losses and submit this within 30 days of the end of the fiscal year to the Finance department head.**
- 2. All losses and deficiencies of public moneys and irrecoverable amounts of revenue, debts and overpayments shall be suitably and briefly recorded in a Register of Losses kept for the purpose, to include:**
  - (a) gross value of losses or deficiencies or irrecoverable amounts of revenue, debts and overpayments (to be entered as soon as the losses or deficiencies are known);
  - (b) date losses advised to Department of Finance
  - (c) amount recovered;
  - (d) amount written off;
  - (e) authority for adjustment;
  - (f) advice of any defects in the internal control system, and if so, a reference to remedial action taken;
- 3. Entries are still recorded in the approved accounting system.**
- 4. Losses or deficiencies of public moneys are recognised in the accounts when approved as a write-off. Where the loss or deficiency concerns moneys which should be credited to a revenue account or have been charged to an expenditure account, the Finance department head will provide instructions when the write-off is approved.**
- 5. It is the responsibility of the department head or delegate to ensure that all cases submitted for write-off approval have been thoroughly investigated. Before approving the write-off and the delegate must be satisfied that write-off is the only reasonable course of action to take and that disciplinary action is not warranted.**
- 6. The write-off action does not extinguish the debt and the Government is not excluded from pursuing the debt at a later date.**
- 7. The following delegations exist for writing off:**

a) Arising from theft, robbery, fraud or other cases.

- Deputy Secretary Operations, DoF = K 5,000
- Departmental Head of any Department = K 3,000

b) Irrecoverable Revenues – Debts and Overpayments

- Commissioner General = K50,000
- Commissioner = K20,000
- Assistant Commissioner = K10,000
- Loans, Revenue & Debt Management = K 5,000
- Deputy Secretary, Operations Department of Finance = K 5,000
- Departmental Head of any Department = K 3,000
- Provincial Treasurer = K 3,000

**8. Where write-off sought exceeds delegated limits shown above, a submission should be made to the Finance department head who has been given unlimited power for the above purposes under Section 108 of the PFMA.**

#### **45.4.1 Liability in Respect of Losses or Deficiencies**

**9. Where there has been a loss or deficiency of public moneys due to misappropriation or fraud, the agency should make every effort to recover in full such losses or deficiencies from the person responsible either by cash payment and/or withholding moneys due, as soon as the loss is known.**

**10. Where there has been a loss or deficiency of public moneys, not due to misappropriation or fraud, the person responsible shall be advised that he is liable for the full amount of the loss, subject to any relief granted under the provisions below.**

**11. If relief is not granted, the full amount of the loss shall be recovered.**

**Where relief is applied for, arrangements shall be made for the following amounts to be made good initially:**

- (i) Where the loss or deficiency is K500 or less, the whole amount;
- (ii) Where the loss or deficiency exceeds K500 but does not exceed K1,000 the amount of K500;

- (iii) Where the loss or deficiency exceeds K1,000, fifty toea for each Kina making up the loss or deficiency.

Appropriate adjustments shall be made as soon as a decision has been taken and the Departmental Head or an Officer appointed by him for the purpose, may approve payment by instalments, but payments shall begin no later than the next pay day.

#### **45.4.2 Prosecutions**

**12. Any undertaking not to prosecute a person if he makes a restitution shall never be given by a department. It is an offence against the law to compound a felony by agreeing not to prosecute the person who committed the felony if he does a certain thing.**

#### **45.4.3 Surcharge or Court Order to make Good**

**13. In every case involving the loss of Government property including money, the Department should consider in consultation with the State Solicitor, what action should be taken. If this action is unsuccessful or if criminal action is not taken, the Department should look at the further remedy of surcharge, or if it is not proceeded with, further legal action if the State Solicitor considers it appropriate. If criminal action is proceeded with, every effort should be made to seek an order for restitution.**

### **45.5 Non-Mandatory Guidance**

#### **45.5.1 Overpayment of Salary and Allowances**

The following procedure is to be observed by Departments in the event of an overpayment of salary and allowances.

- Where an overpayment of salary or allowance has occurred through miscalculation or payroll error, or clearly a mistake in the application of an Act, Regulation, or Public Service General Orders, the overpayment is recoverable and the Department should proceed to take recovery action immediately.
- Where an overpayment of salary or allowance is alleged to have occurred for any other reason and the officer or employee disputes the matter or the Department itself is doubtful whether the overpayment is recoverable, all the relevant facts shall be referred to the Department of

Finance Financial Reporting and Compliance Division who will seek legal advice, if necessary, before any recovery action is taken.

- Overpayments which are deemed to be recoverable and which have been received in good faith shall be recovered in full if the overpayment has not continued beyond twelve months. If the overpayment has continued beyond twelve months, the amount overpaid for the last twelve months alone shall be recovered. Cases of hardship can be reviewed by an officer vested with the power for write-off or the Department of Finance.
- Overpayments which are deemed to be recoverable and which have been received in bad faith, (i.e., where the recipient had reason to know he was being overpaid), shall not be waived but shall be recovered in full.
- Where an overpayment has been established the following procedures shall be followed by Departments:
  - A formal letter of demand is to be issued to the officer overpaid asking him either to refund the amount or agree to recovery by instalments from his salary.
- Where recovery is by instalment, each instalment should be not less than 10% of net salary and the number of instalments should not exceed 18 paydays.
  - If no reply is received within seven days or a reasonable period after issue of the letter or a letter is received but without offering satisfactory repayment arrangements or the officer refuses to allow deductions to be made from salary, particulars are to be sent by the Department Staff or Salaries Section to the State Solicitor for recovery to commence by legal action.
  - In the case of legal action for recovery of debts caused by defalcation, details are likewise to be sent to the State Solicitor, advising him to commence recovery.
  - In both cases it will be necessary to advise the State Solicitor, the following detail:
    - a. Amount of debt

- b. Name of debtor
- c. Address of debtor
- d. Recovery action taken to date

#### **45.5.2 Irrecoverable Debt and Revenue Procedure**

The following procedure shall be followed where moneys are not collected and are irrecoverable:

- The exercise of any delegation to write off irrecoverable amounts of revenue or irrecoverable debts and overpayments does not imply a legal renunciation by the State of a claim on money due to the government. Nor does this action absolve a department from recovering a debt if recovery becomes possible at some future date. In the case of an overpayment of periodical amounts paid by departments, a notation shall be made on the appropriate record to ensure the amount is overpaid is recovered.
- Where it has been found impossible to recover revenue, overpayments and other debts owing to the Government, the authority of the Secretary for Finance or his delegate shall be obtained for the write offs.
- Where an amount is owed by a bankrupt or a company in liquidation, the amount shall not be written off until the bankrupt has been discharged from bankruptcy, the liquidation of the company has been finalized or advice has been received from the administrator that further distribution is not likely.

#### **45.5.3 Procedure for Other Irregular Payments.**

Unless otherwise directed by the Finance department head, the steps above shall also apply to:

- a. an irregular payment which has not been immediately recovered;
- b. an overpayment due to a breakdown in procedure;
- c. an overpayment due to arithmetical error which cannot be recovered from moneys due, or known to be due in the future to the payee, and which is not recovered within a period of four weeks from the date of discovery of the overpayment;
- d. a loss of revenue occasioned by the non-collection of an amount which is determined to be due to the Government under a law, regulation or a decision by the appropriate authority; and

- e. a non-collection or under-collection of an amount which is due and not recovered within a period of four weeks from date of discovery.

#### **45.5.4 Recovery of Losses from officers or employees**

##### *45.5.4.1 Recovery from Refunds of Superannuation or Benefit Funds*

If, despite Departmental requests, an officer or employee (including a member of a Force) who is a contributor under the Superannuation (general provisions) Act, or the PNG Defence Retirement Benefits Act has failed to repay to the Government sums misappropriated, deficiencies of cash, overpayments of salary and such like, and is resigning or being dismissed or retrenched from the service, then the Department shall:

- obtain from the contributor a completed application form for refund of contributions together with an order authorising superannuation to pay to the department the amount of the contributions or so much thereof as will cover the debt;
- if the contributor completes an application form for refund of contributions, but refuses to sign the Order referred to in (a), forward the application form to the Superannuation Funds with full details of the case and a request that payment be made to the Department;
- if a complete application form cannot be obtained from the contributor , fill-in the form as appropriate and forward it to the Superannuation Funds with full details of the case and a request that payment be made to the Department;

Before action is taken to seek recovery of the debt in whole or in part from the State Services and Statutory Authorities Superannuation Board or Defence Retirement and Benefits Funds, Departments should ensure that proper evidence is available to support the Government's claim for the debt owing to it;

- When a refund of contributions has been made to a Department by the State Services and Statutory Authorities Superannuation Board or Defence Retirement and Benefits Funds, the balance due to the contributor, after deducting the amount owing to the Government, should be paid without delay.

For Losses or Deficiencies - Applications for Relief by Officers or Employees, the following conditions are prescribed for general application:

- any officer or employee having caused a loss or deficiency in public moneys may make application for alleviation or discharge from the liability;
- any such application shall be made by the officer or employee to the Departmental Head through his immediate superior officer and shall set out the amount of the loss or deficiency and any explanation he may desire to offer;
- the application shall be considered by a Committee of three officers two of whom shall be appointed by the Departmental Head or an officer authorised by him for the purpose, one being the Head of the Branch in which the officer or employee is employed, or his representative. The Chairman shall be a senior officer from the Department of Finance. An officer of another department is not prevented from being a member of the Committee if circumstances warrant such an appointment.
- the Committee shall take into consideration the circumstances of the loss or deficiency, the record of the officer or employee and the amount of loss or deficiency and any amount recovered or any compensatory payment made by the officer in regard to the loss or deficiency.
- the Committee shall report the facts and recommend to the Departmental Head with a copy to the Secretary for Finance the amount of the loss or deficiency which it considers should be borne by the officer or employee.

#### **45.5.5 Reporting and Recording**

As soon as losses or deficiencies of public moneys are noticed, the following action shall be taken:

- If theft, robbery or fraud is suspected:
  - Report to the Police and request for an investigation as soon as possible.
  - Advise the Auditor-General and the Department of Finance Financial and Audit Inspections Division as soon as it becomes known.

- Where the amount of loss or value is more than 10,000 - within 14 days of the occurrence of the loss, submit a complete report to the Auditor General and the FAID
- In other cases:
  - losses and deficiencies exceeding K10,000.
    - Advise the Department of Finance (FAID) as soon as possible.
    - Within 14 days of the occurrence of the loss, submit a report to the Department of Finance outlining:
      - 1) Nature and amount of the Loss: (state whether theft, misappropriation, fraud, negligence etc.).
      - 2) Division/Branch/Location where the loss occurred.
      - 3) Date or period when the loss occurred or discovered.
      - 4) Brief report on the circumstances leading to the loss indicate how the loss was facilitated.
      - 5) Name of officer(s) directly responsible for the loss.
      - 6) Names of other officer(s) indirectly involved. How were these officer(s) involved?
      - 7) Name and designation of supervising officer(s).
      - 8) What form of controls exists to prevent losses of the nature reported?
      - 9) Are the controls stated in 8 above being exercised effectively? If not state reasons for the breakdown.
      - 10) Have the police been informed? If not are there any reasons, why? If the police have been informed, a copy of the Report should be submitted, when available.
      - 11) Has any officer been convicted by the court? Please provide details and a copy of the court order when received.
      - 12) Has an order for Restitution been sought from the court? Please provide details
- After taking all other necessary action submit a report, with appropriate recommendations to the Department of Finance.

<b>Further Information</b>	frcd@finance.gov.pg
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