

# FINANCE MANAGEMENT MANUAL



Volume 2 - Public Financial Accountability and Governance



issued by Department of Finance

Establishing Internal  
Controls and  
Delegations

Fraud, Anti-corruption  
and Whistleblower  
protections

Budgetary Controls and  
Sub-national entities

# Government of PNG

## Financial Management Manual

### Volume 2

# Public Financial Accountability and Governance

This document is available in electronic form and is constantly updated. For the latest version of the manual and its volumes or any inquiries on this Document, please contact:

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The Finance Management Manual is designed to assist agencies in complying with the various public financial management legislations and to also assist department heads in developing a framework for the financial management of their agency.

Section 117 of the PFMA states that the Finance Departmental Head may issue Financial Management Manuals, not inconsistent with this Act, for instruction and guidance on the implementation of any matter for the better control and management of public moneys and public property.

**Volume 1** discusses the principles underpinning public financial management in PNG.

**Volume 2** (this volume) discusses PNG's Public Financial Accountability and Governance. It details the mechanisms for delivering and monitoring services and functions. It includes considerations for environmental, social, and governance (ESG) factors, defines governance, introduces the control environment, and specific guidance on delegations.

**Volume 3** discusses Procedures and Control of Public Accounts

**Volume 4** discusses Financial Reporting

**Volume 5** discusses Internal Controls and Internal Audit

**Volume 6** is an Elected Member's Guide to PNG PFM

**Volume 7** is the Department of Treasury Budget Manual

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## FMM 02.1 Governance and the Control Environment

There is no direct definition of governance for a public entity in the PFMA. It is ensuring the efficient and effective performance of the agency in the delivery of services to the public, enforcing compliance with legislation and implementing Government Policies (Section 22A (4)(c) of the *Public Services (Management) Act*) and establishing internal controls and taking all necessary actions to ensure the efficient, effective, economical and ethical use of the public money and property (PFMA S5 (1)).

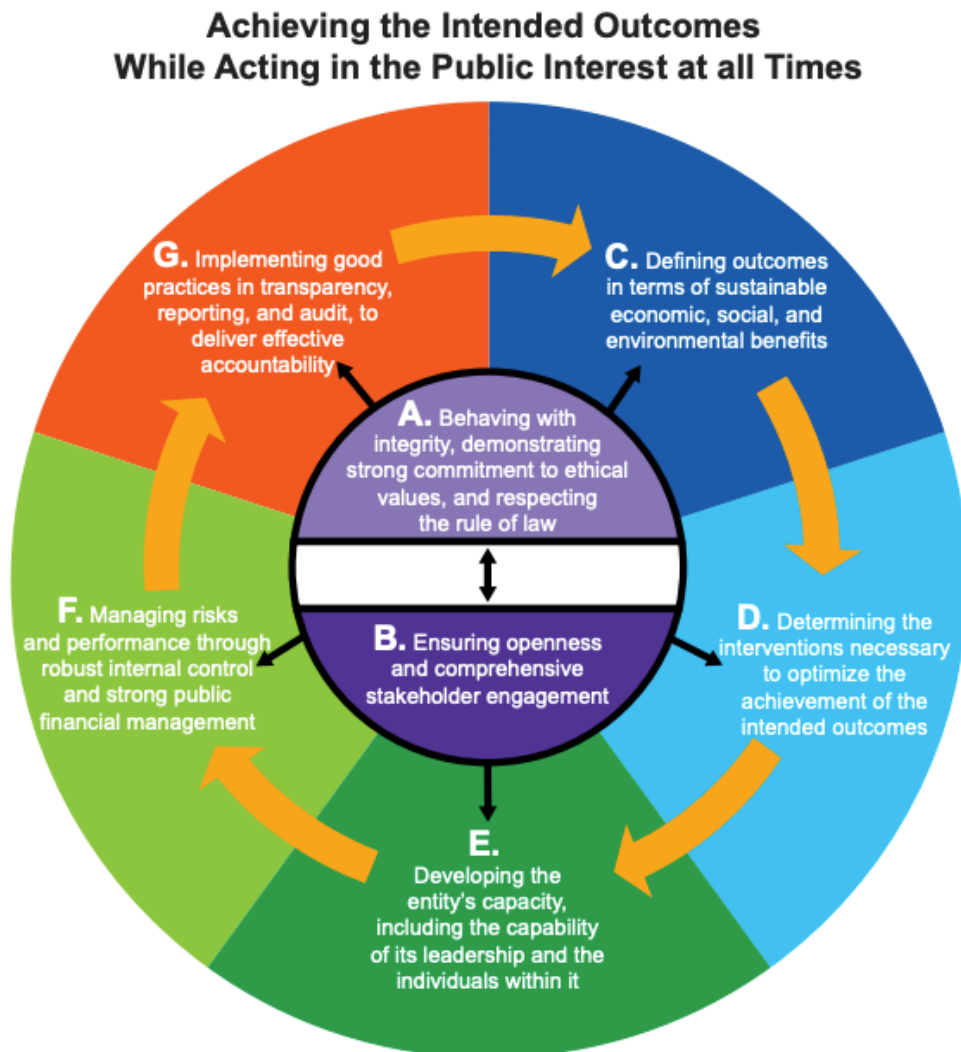


Figure 1 The international framework good governance in the public sector CIPFA

For a statutory body it is:

**64D. GOVERNANCE**

*(1) A statutory body shall ensure that it applies governance rules appropriate for the statutory body, to manage the implementation and performance of its programs, activities, functions and operations.*

*(2) Governance rules shall -*

*(a) incorporate the cultural and operational aspects of the statutory body that are*

*influenced by its actions and decisions; and*

*(b) include the concepts of -*

*(i) openness, integrity and transparency; and*

*(ii) due care; and*

*(iii) public accountability; and*

*(c) include establishing a performance management system, a risk management system and an internal control structure.*

**1.1.1 What does this mean?**

For a statutory body, governance is a fundamental pillar that ensures its effectiveness in implementing and managing its programs, activities, functions, and operations. To achieve this, the statutory body must establish governance rules that are specifically designed to fit its structure and purpose.

These governance rules should be deeply rooted in the organisation's cultural and operational landscape, recognising that its decisions and actions significantly impact both internal stakeholders and the broader public. As a result, governance must embrace key principles, including openness, integrity, and transparency, ensuring that decision-making processes are clear, ethical, and accessible to scrutiny. Furthermore, the governance framework must be built on due care, emphasising responsibility and diligence in managing resources and executing functions. Above all, the concept of public accountability must remain at the core, reinforcing the statutory body's obligation to justify its actions and decisions to the public and other relevant authorities.

To support this governance structure, the statutory body must put in place essential management systems. A well-defined performance management system should be established to measure and enhance the efficiency and effectiveness of its activities. Alongside this, a risk management system should be implemented to identify potential threats and develop strategies to mitigate them. Finally, an internal control structure must be in place to oversee compliance, safeguard resources, and maintain operational integrity.

Through this governance approach, the statutory body ensures that it remains transparent, responsible, and capable of fulfilling its mandate while fostering public trust and accountability.

The following principles underpin any agency’s governance framework:

- The agency’s corporate plan and mission is well understood by everyone in the agency and this is embedded within a persons job description;
- The department head and executive of the agency have adopted and enforce the agency’s corporate plan and mission through actions and performance monitoring;
- The establishment, documentation and communication of the agency’s organisational structure, delegations and clearly defined job descriptions;
- The creation and implementation of sound systems of cost effective internal controls, guidelines and operational processes;
- An effective internal audit function;
- Appropriate committees such as the audit and risk management committee

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## **FMM 02.2 Minimum proficiency requirements for Heads of Finance and Internal Audit**

### **2.1 Authority and Prescribed Requirements**

- Public Finances (Management) Act 1995 (PFMA) -
  - Section 5 Requires Departmental Heads to ensure proper financial management, including appointing qualified personnel to key financial roles.
  - Section 48F/G and Section 62 and 63 require public bodies and statutory bodies respectively to keep proper accounts and records, adequate control over systems, and the completion of financial statements and report, therefore requiring effective finance and internal audit functions.
  - Section 64E specifically references the Chief Financial Officer of a statutory body shall comply with the duties, obligations and responsibilities as directed by the Finance Departmental Head.

### **2.2 Relevant Standards and Supporting Documentation**

- International Public Sector Accounting Standards (IPSAS)
- International Professional Practices Framework (IPPF) for Internal Auditors Standard 1210 Proficiency.
- Public Service General Orders to specify competency-based selection criteria for senior positions.

### **2.3 Mandated Policy**

- 1. Department heads are required to ensure that the roles of head of finance and head of internal audit have the necessary minimum competencies in finance and internal audit to discharge their responsibilities.**
- 2. Departmental Heads are to ensure that candidates for the roles of Head of Finance and Head of Internal Audit (or the equivalent titles) meet the minimum competency and experience requirements aligned with the risk**

**and control environment of the agency and appointed in line with applicable laws and policies.**

## **2.4 Non-mandatory Guidance**

### **2.4.1 Head of Internal Audit**

The Head of Internal Audit (CAE or Chief Audit Executive is the terms used in audit standards) must be able to demonstrate knowledge of the PFMA, FMM, and IPPF/INTOSAI standards.

Agencies should aim to appoint a CAE who holds or is actively pursuing a relevant qualification (e.g. CPA PNG, CIA, or equivalent postgraduate audit certification).

If the CAE does not yet meet these standards, a development plan must be in place, and the Audit Committee and DoF should be informed.

The Head of Internal Audit leads independent assessments of internal controls, risk management, and governance processes, ensuring transparency and accountability. Their minimum responsibilities are:

- Provision of assessment and evaluation of the effectiveness and efficiency of agency financial and operation systems, reporting processes and activities
- Provision of assessment in risk management and identifying deficiencies in risk management
- Able to establish audit plans and carry out audits of internal controls and conduct testing on the reliability and integrity of financial and non-financial information, effectiveness and efficiency of operations, safeguarding of assets and compliance with laws, regulations and contracts.

They require a comprehensive understanding of the *Audit Act 1989* and IPPF standards and a proficiency in auditing methodologies, fraud detection, and internal controls. Ideally the head of audit, particularly for technical service agencies, has an understanding or experience in the service environment of the agency, understanding the business processes and outcomes.

A head of internal audit should also have a complete understanding of modern finance systems, understand electronic records management and using systems to conduct and control audits.

### 2.4.2 Head of Finance

The Head of Finance oversees the financial operations, ensuring compliance with financial regulations, effective budgeting, and safeguarding public funds. Their minimum responsibilities are:

- Financial resource management including the establishment, maintenance and review of financial internal controls
- Budget management
- Preparation of performance and financial statements
- Provision of advice of the PFMA and effectiveness of the systems and financial controls in meeting the agency requirements
- Provision of advice of the financial implications of, and financial risk to the delivery of agency services

They require a strong knowledge of PFMA and other relevant legislation and are experts in financial reporting and audit compliance.

Agencies must appoint a head of finance who holds a relevant qualification (e.g. CPA PNG, CIA, or equivalent certification).

The head of finance must not only understand accounting basics, the IPSAS accounting standards and importantly the keeping of records and internal controls, they must also have a demonstrated understanding of using an electronic accounting system and completed period end processing.

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## **FMM 02.3 ESG – Environmental, Social and Governance Sustainability**

As an interrelated part, PFM needs to coexist and support improvements in how we govern and the incorporation of ESG helps align financial management with broader societal goals, such as environmental sustainability, social equity, and transparent governance.

Doing so not only addresses immediate financial concerns but also promotes long-term economic stability and ethical accountability.

In PFM, environmental considerations involve:

- integrating sustainable practices into government operations. This includes prioritising eco-friendly procurement, investing in renewable energy projects, and ensuring that public infrastructure projects meet environmental standards. For example, implementing green building standards for government facilities can reduce energy consumption and environmental impact.

Social aspects focus on promoting inclusivity and equitable service delivery. This involves:

- allocating budgetary resources to social programs that address disparities in healthcare, education, and social welfare. Public financial decisions should also consider the social impact of policies.

### **3.1 Financial Sustainability**

Financial sustainability in PFM refers to the ability of the government to maintain and manage its financial resources in a way that ensures long-term fiscal health and the ability to meet its obligations to citizens and creditors.

We don't think only about the short term budget and expenditure but the financial decisions we are making now and their impact on our citizens and our agencies financial results in the future.

In PNG, financial sustainability is managed through a combination of budgetary practices, fiscal policies, and legislative frameworks.

The *PNG Fiscal Responsibility Act 2006* is the Government's framework for sustainability. It mandates the government to maintain prudent levels of debt and deficits, ensuring that public finances are managed sustainably, such as Section 4:

*PRINCIPLES FOR THE SOUND FISCAL MANAGEMENT.*

*The principles for the sound fiscal management and implementation of the Government's Budgets are that:-*

- (a) Government will live within its means by producing a budget that is affordable and sustainable;*
- (b) Government will maintain the integrity of the tax system;*
- (c) Government will not raise the overall level of debt during its term; (d) the Budget will be in balance over the term of the Government;*
- (e) budget expenditures will be consistent with agreed national and sectoral priorities;*
- (f) Government will limit its ownership role and direct participation in service delivery to core areas where there is a clear rationale for public intervention;*
- (g) Government will provide a regulatory framework that encourages and supports the private sector.*

**3.1.1 How do we ensure financial sustainability**

Key aspects of managing financial sustainability include:

1. Complying with the Fiscal Responsibility Act and PFMA that sets the legal framework for maintaining fiscal discipline. It requires regular reporting on the government's fiscal performance, setting limits on public debt, and ensuring transparency in the use of public funds.
2. The budget process in PNG is designed to align spending with national priorities while maintaining fiscal discipline. This includes medium-term expenditure frameworks that project revenues and expenditures over multiple years, allowing for better planning and sustainability.
3. Identifying and managing fiscal risks, such as economic shocks, natural disasters, and other uncertainties, is essential. This involves setting aside

contingency funds and having robust mechanisms in place to respond to financial emergencies.

4. Regular audits, public disclosure of financial information, and legislative oversight are critical to maintaining public trust and ensuring that financial management practices are sustainable and accountable.
5. Implementation of audit findings.
6. Managing public debt levels to ensure that they are sustainable and that the government can meet its debt obligations without compromising other public services is a key aspect of financial sustainability.

Under the Fiscal Responsibility Act 2006, no NEC submission that will have any financial implications on the State can be considered by National Executive Council without firstly consulting with the Treasurer. This is a measure to ensure fiscal sustainability of any major decision making.

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## FMM 02.4 Establishing Internal Controls

A key responsibility for the department head is the establishment of internal controls and much of the understanding of PFM and its contribution to governance is captured in the establishing a control environment with effective internal controls.

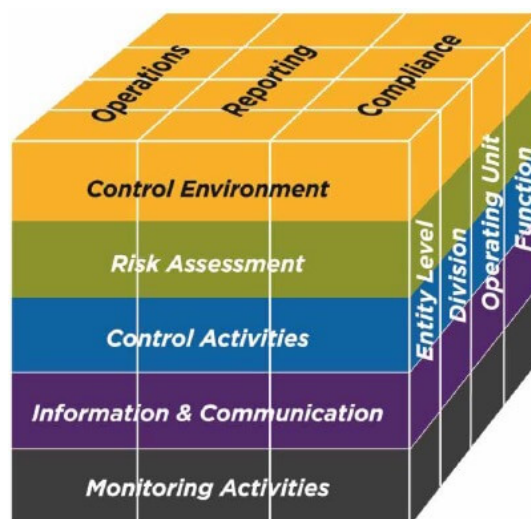


Figure 2 COSO Internal Control Framework - Five Pillars

### 4.1 What is a control environment

Internal controls are the mechanisms, rules, and procedures implemented by an agency to safeguard assets, ensure accurate financial reporting, promote accountability, and prevent fraud and errors. These controls are essential for achieving organizational objectives and enhancing service delivery.

#### 4.1.1 Objectives of Internal Controls

Internal controls serve the following purposes:

- Ensuring operational efficiency – Streamlining processes and eliminating redundancies to maximize resource utilization.
- Maintaining financial integrity – Ensuring the accuracy and reliability of financial statements and management reports.
- Enhancing compliance – Adhering to applicable laws, regulations, and policies.

- Managing risks – Identifying, assessing, and mitigating financial, operational, and compliance risks.
- Preventing and detecting fraud and errors – Implementing checks and balances to reduce the likelihood of financial misconduct.

#### *4.1.1.1 Common Examples of Internal Controls*

Internal control mechanisms vary across organizations but commonly include:

- Segregation of Duties – Dividing key responsibilities among different individuals to minimize the risk of errors or fraudulent activities.
- Authorisation and Approval Procedures – Requiring multiple levels of approval for financial transactions to ensure accountability.
- Reconciliations – Regularly comparing financial records with external statements (e.g., bank reconciliations) to detect discrepancies.
- Access Controls – Limiting access to sensitive financial systems, documents, and assets to authorized personnel only.
- Audit Trails – Maintaining logs and records of transactions to facilitate tracking and review.
- Regular Internal Audits – Conducting periodic assessments to identify weaknesses and implement corrective actions.

#### *4.1.1.2 Limitations of Internal Controls*

While internal controls are vital, they are not foolproof. The effectiveness of internal controls can be limited by various factors, including:

- Human Error – Mistakes due to carelessness, lack of training, or misunderstanding of procedures.
- Collusion and Fraud – Employees working together to override controls for personal gain.
- Management Override – Senior officials bypassing established controls, undermining their effectiveness.
- Resource Constraints – Limited staffing, technology, or funding affecting the implementation and monitoring of controls.

- Outdated Controls – Failure to update control mechanisms in response to changes in the operating environment, regulations, or risks.

To mitigate these limitations, management must foster a culture that values internal controls, provide regular training to staff, and continuously review and update control processes. Routine audits and risk assessments can help in identifying control weaknesses and ensuring timely corrective actions.

It is the department head and the management team who are responsible for the development and implementation of internal controls. The internal audit team are only responsible for the testing of the internal controls framework and cannot be involved in the development and implementation of internal controls.

#### **4.1.2 The COSO Internal Control Framework**

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control Framework outlines five interrelated components that provide a structured approach to designing, implementing, and evaluating internal controls within an organization. These components are:

1. Control Environment – Establishes the foundation for internal control through ethical values, leadership commitment, governance structures, and a strong organizational culture.
2. Risk Assessment – Identifies and evaluates potential risks that could impact an organization's ability to achieve its objectives.
3. Control Activities – Defines specific policies, procedures, and mechanisms to mitigate risks and ensure compliance.
4. Information and Communication – Ensures accurate and timely dissemination of relevant financial and operational information.
5. Monitoring Activities – Establishes mechanisms for assessing the performance of internal controls and making improvements as necessary.

The FMM Volume 5 discusses in more detail the role of internal controls and the purpose of Internal Audit and Audit Committees to test and ensure a strong system of internal controls within an agency.

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## FMM 02.5 Establishing Delegations

### 5.1 Authority and Prescribed Requirements

- Public Finances (Management) Act 1995 (PFMA)
  - A power, role or responsibility vested by the PFMA may be delegated only by written instrument (Gazette notice or Board resolution where the Act so provides).
  - Part II outlines all the assigned responsibilities for financial management
  - Section 32 provides for a departmental head, by notice through National Gazette, appoint officers to approve purchase requisitions.
  - Section 33 provides for a departmental head to appoint payment officers.

### 5.2 Relevant Standards and Supporting Documentation

- Nil

### 5.3 Minimum Responsibilities

Delegators (e.g., Finance Minister, Departmental Heads) are to ensure that delegations align with the PFMA, are well defined in scope, duration and have specified any limitations of delegated powers.

Delegates (e.g., Finance Officers, Provincial/District Finance Managers) have a responsibility to perform delegated duties strictly within the scope defined and comply with the PFMA, other applicable laws and any released instructions and guidelines including this manual.

### 5.4 Mandated Policy

- 1. No delegation is valid until published in the National Gazette and entered in the agency's Delegation Register.**
- 2. All delegations (administrative, financial and emergency powers) must be circulated to all agency staff.**
- 3. Department heads must ensure delegations are established for possible emergencies for the agency and how an emergency is declared for the agency (usually by the department head). Any national emergencies and**

**the appropriate delegations outside this delegation process can only be declared by the National Executive Council in accordance with the National Procurement Act 2018 or the Head of State under the Pandemic Act 2020 and Constitution (as examples).**

- 4. Only officers delegated Section 32 authority by the Departmental Head via gazettal notice may approve a commitment of public funds.**
- 5. Sub-delegation is not permitted. A person with delegated authority cannot further delegate that power.**

#### **5.4.1 Commitment vs payment powers**

- 6. Section 32 delegations (approve purchase requisitions/commit funds) are assigned to positions.**
- 7. Section 33 delegations (authorise payments) are assigned to positions.**
- 8. Bank signatories are assigned to a person and the department head must ensure that there is a counter-signatory and alternates for all bank accounts and a register kept of signatories.**
- 9. Holding s. 32 authority does not automatically confer s. 33 authority, and vice-versa.**

#### **5.4.2 Emergency delegations**

- 10. An “emergency” is a sudden event posing an immediate threat to life, public safety, critical service continuity or public property (e.g., natural disaster, epidemic, major system failure).**
- 11. A written Emergency Delegation Instrument sub-delegating existing department head delegation powers may be issued only by:**

- a. The Departmental Head for agency-specific emergencies, or**
- b. The Provincial Administrator for provincial emergencies.**

**All other general declaration powers above the department head threshold reside with:**

- c. The Board of the National Procurement Commission for national emergencies above a department head threshold; and**

**d. The Finance Minister on authority of the National Executive Council.**

**12. The instrument must state: nature of emergency, delegations assigned, financial ceiling, duration ( $\leq 30$  days), and any special procurement method.**

**13. Within seven (7) working days of issuance, the delegate must lodge:**

- a. A schedule of all commitments/payments made; and**
- b. All supporting CFCs and procurement documentation; and**
- c. with the Departmental Head, Secretary for Finance and the National Procurement Commission for ex-post ratification, where applicable.**

**14. This policy does not apply to the Pandemic Act or any declared State of Emergency under the Constitution or other legislated acts on emergencies which prescribe the process for emergency expenditure and procurement.**

**15. All emergency spending remains subject to PFMA, National Procurement Act and availability of appropriation. Emergency procurement must still follow PFMA and must be covered by a valid appropriation and CFC.**

#### **5.4.3 Delegations Register**

**16. Each agency must maintain a Delegation Register (electronic) containing:**

- a. Position**
- b. Type & limit of delegation**
- c. Gazette or Board reference and date**
- d. Validity period**
- e. Funds / votes covered**
- f. For bank signatories – the name of the person and bank account**

**17. The Register must be provided to internal auditors, the Auditor-General, Departments of Finance or Treasury and the Public Accounts Committee on request.**

#### **5.4.4 Review & Revocation**

**18. Delegations must be reviewed at least annually and whenever a delegate changes position, authority limits change, or audit findings require tightening of controls.**

**19. Revocation or amendment takes effect on the Gazette publication date and must be recorded in the Register.**

#### **5.4.5 Corporate Cards**

**20. Possession of a Government Purchase Card constitutes an s. 33 payment delegation.**

**21. A cardholder without an s. 32 delegation must obtain prior commitment approval from an authorised s. 32 delegate before using the card.**

**22. Transactions are limited to the lower of the card's transaction cap or the delegate's s. 32 limit (if held).**

*Refer to Volume 3 on Government Purchase Cards and Accounts for further details.*

#### **5.4.6 Consequences of Breach**

**23. Approving or paying outside delegated limits is an offence under PFMA Part XI and may result in surcharge, suspension or permanent disbarment.**

#### **5.4.7 Elections and Major Events**

There are events where persons who do not usually have delegations or are not trained in using Section 32 and 33 delegations that are assigned these powers, special oversight is required to ensure no over-commitment and arrears occur. The departmental head is responsible for establish frameworks for these activities.

*Special note, although industrial elections or events can be services provided that are not using GoPNG budgeted funds, when they are in the control of the agency, they are deemed public funds and must comply with legislation including the Finance Management Manual when spent.*

**24. All expenditure for elections or major events must be charged to the dedicated Vote / Sub-appropriation approved for this purpose and payment only if there is a Treasurer warrant.**

**25. Unlike 'business as usual' delegations, any financial powers that are delegated are listed and published with the following details:**

- a. Delegate's position.**
- b. Monetary ceiling equal to the budget for that event/electorate – the department head needs to identify how best to manage the ceiling limits – either by budget category or location – and this is important for tracking overall commitment values assigned to the delegate's position.**
- c. Allowed expense categories (polling kits, transport, polling-staff allowances, catering, etc.) and this needs to be specific – where an expense category is not included – the financial powers are not provided.**
- d. Start date and expiry and no contract or financial commitments can be made for recurring goods and services after that expiry date (eg. if they have 30 days of powers then any commitment such as hire car or storage fees cannot be contracted beyond that 30 days and must be authorised by another position such as department head)**

**26. All delegations for any elections or major events must be widely circulated and published so all staff and suppliers are aware of the express powers provided including the allowed expenses, ceiling limits and start and expiry dates.**

**27. Splitting of purchases to remain within an events limit is prohibited. Commitments that would exceed the ceiling must be escalated to the next senior delegate for approval.**

**28. Before issuing a contract, purchase order or hire agreement, the delegate must attach and Purchase Order from the IFMS.**

#### **5.4.8 Prohibition on Individual Benefit**

**29. Public funds (regardless of whether it is operating funds, trust funds or SIP funds) must never be used to support, promote or favour any individual candidate or political party or authorised for individual benefit.**

**30. Breach constitutes misappropriation under the Criminal Code and will be referred to the Ombudsman Commission, ICAC and Police, in addition to PFMA Part XI surcharge.**

## **5.5 Non-mandated Guidance**

### **5.5.1 Delegation Structure**

Always align limits with:

- Agency budget groupings or sub-appropriations.
- Fund source (Recurrent, Development, Trust).
- Economic item (e.g., travel, capital works) and risk level.

Use tiered thresholds so higher-risk or high-value items require senior approval.

### **5.5.2 Segregation of Duties**

Separate commitment, certification of receipt, and payment functions wherever staffing allows.

Every delegated decision should be traceable to: requisition, quotation/contract, CFC, approval minute, and, for payments, evidence of receipt or delivery, even during an emergency.

### **5.5.3 Communication & Training & Continuous Improvement**

Circulate an up-to-date delegation matrix to all staff annually.

Provide targeted training on: PFMA obligations, verifying invoices, estimating whole-of-life cost before approval.

Run quarterly exception reports from IFMS to flag approvals above limits or split purchases.

Board or executive should receive a periodic summary of delegation usage and breaches.

### **5.5.4 Emergency Readiness**

Pre-draft a template Emergency Delegation Instrument and have an emergency procurement SOP approved in advance.

Maintain a small panel of pre-qualified suppliers for critical goods and services.

After each audit or emergency event, review the adequacy of limits, documentation quality and speed of ratification, and update procedures accordingly.

Delegation limits should be reviewed regularly to reflect changes in roles or responsibilities and when establishing them consider organisational structure responsibility, control over public funds and bank accounts, expenditure items and high risk areas.

All delegations must be documented and communicated clearly to staff, on an annual basis.

When using delegations, this is done understanding the entire procure to pay cycle. For example, approving to lease equipment means the financial delegate was given a quote with the start date, end date, details of the unit cost, details of the supplier, any terms and conditions and the total estimated cost of the transaction.

Financial delegates should not approve commitments without understanding the complete cost of that approval or allowing no end date to the financial commitments.

Ensure segregation of duties with a person and position.

Ensure higher-value transactions or high risk areas require senior-level authorisation.

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## **FMM 02.6 Appointment of Financial Controllers**

### **6.1 Authority and Prescribed Requirements**

- Public Finances (Management) Act 1995 (PFMA)
  - Section 8A empowers the Secretary of Finance to appoint Financial Controllers.

### **6.2 Standards and Supporting Documentation**

- Nil

### **6.3 Minimum Responsibilities**

The Finance departmental head has the power to appoint a financial controller in any public entity whose role is to deal with matters on the PFMA. The appointment into a constitutional institution is with the consent and agreement of the relevant constitutional institution and whose consent and agreement shall not be unreasonably withheld.

Departmental heads shall be held responsible for any discrepancies or non-compliance identified in relation to PFMA and Financial Instructions at all levels of expenditure and revenue collection.

### **6.4 Mandated Policy**

- 1. An appointment of a Financial Controller (FC) is made in writing by the finance departmental head to the agency departmental head for a specified period of time and for specified purposes.**
- 2. They would also be required to work alongside respective agency's Section 32 and 33 delegated officers, Finance team/divisions, Project and Contract Managers and other officers considered necessary within the line of duty.**
- 3. FCs are not the employee of the agency in which they have been placed and will not perform the duties and responsibilities of agency staff. They are however, assigned to the agency to ensure there is compliance with the PFMA, accountability and transparency requirements.**

- 4. Financial Controllers are not accountable officers at the agency and therefore are not allowed to make expenditure decisions.**
- 5. The departmental head must ensure that their staff provide financial controllers their fullest cooperation.**

### **6.5 Non-mandatory Guidance**

A financial controller can be appointed for a specific purpose or generally to assist and ensure compliance to the PFMA, and will oversee:

- Ensure that Warrant Authorities issued to departmental heads and related Cash Fund Certificate (CFC) are properly controlled and that commitments and expenditures are within the parameters of the warrant authority and CFCs authorised.
- Ensure that the aggregate CFCs raised under each vote should at no stage exceed the total funds approved under warrant authorities for that vote.
- Confirm and endorse that claims examined (by examiners) are in accordance with government procurement procedures by: -
- Ensuring appropriate Section 32 Officers' approvals are obtained for all proposals for expenditure.
- Reject and / or cancel expenditure proposals where funds are not available in the votes indicated for commitment.
- Ensure compliance with the National Procurement Act or procedures established by the National Procurement Commission
- Ensure that proper documentation for commitments monitoring, e.g.; contractual obligation, agreements, periodical payments etc for verification purposes.
- Make recommendations for disciplinary action against any officer responsible for any irregular or fraudulent transaction, misappropriation of funds and refusing to provide information required.
- Query discrepancies, carryover of reconciling items for corrective action to be taken by the department.
- Ensure that all Trust Accounts records are properly maintained, updated and reconciled monthly.

- Check and verify departmental officers on payroll against staff establishment registers in order to ensure that staff on strength are within ceilings approved by the Department of Personnel Management.
- Ensure that the agency collect revenues promptly and to the fullest extent and to have the rates of fees, charges, and imposts reviewed annually.
- Ensure that monthly reviews are undertaken on revenue collection performance, and advise the agency to take corrective action where actual revenue collection performance is below its forecast for the month.
- Ensure that all paying and receiving officers adhere to all standing acts, rules and regulations covering revenue matters and management.

The Financial Controllers will be required to report on the expenditure and revenue performances of each department to the Secretary of Finance on a monthly basis. These reports would highlight any abnormalities and deficiencies identified at all levels of expenditure and revenue management in order for Finance departmental head to recommend appropriate corrective measures. These reports would include: -

- Commitment Reports.
- Expenditure Vote Summary Reports.
- Bank Reconciliation Statements.
- Trust Accounts Reconciliation Statements.
- Revenue Statements (Non Tax).
- Provide Project Related Expenditures.
- Statement of Expenditures.
- Report on any abnormalities and discrepancies identified in relation to collection of revenue and expenditure of public funds.

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## **FMM 02.7 Fraud**

### **7.1 Authority and Prescribed Requirements**

- Organic Law on the Independent Commission Against Corruption (OLICAC) 2020
- Public Finances (Management) Act 1995 (PFMA)
- Criminal Code Act - Defines offences related to fraud and corruption, including bribery, embezzlement, and misappropriation of funds.
- Whistleblower Act 2020 to provide protections for individuals reporting corrupt activities, safeguarding them from occupational detriment.
- Anti-Money Laundering and Counter-Terrorist Financing Act 2015 establishes measures to detect and prevent money laundering and terrorism financing activities in Papua New Guinea.
- Proceeds of Crime Act 2005 provides the legal framework for confiscating and recovering assets derived from criminal activities

### **7.2 Relevant Standards and Supporting Documentation**

- National Anti-Corruption Strategy (and associated action plan) 2010–2030 is a strategic framework guiding the government’s efforts to combat corruption.

### **7.3 Minimum Responsibilities**

Departmental Heads are to implement robust fraud control frameworks, including policies, procedures, and training. They are to ensure internal audits and risk assessments focus on identifying and mitigating fraud risks. Under the PFMA Section 5(1)(d) a departmental head is required to develop and implement an annual plan to reduce the risk of fraud.

Heads of Finance are to ensure adherence to internal controls and report suspected fraudulent activities. They are to conduct reconciliations and other checks to identify irregularities in financial transactions.

Internal audit units are to regularly audit systems and processes to identify vulnerabilities to fraud and the departmental head may assign responsibility to investigate suspected cases of fraud and recommend corrective actions.

The Department of Finance is responsible for the establishment of the FAID and maintain a centralised reporting and investigation mechanisms for agencies on suspected fraud.

Governance in agencies includes arrangements for preventing, countering, and dealing with fraud.

#### **7.4 Mandated Policy**

- 1. All agencies are required to have fraud and corruption controls in place and a Fraud Control Plan.**
- 2. Agencies must conduct fraud and corruption risk assessments regularly and when there is a substantial change in the structure, functions or activities of the agency.**
- 3. Agencies must have an ongoing cycle of ensuring all controls are identified and prioritised through a risk based assessment specific to the agency.**
- 4. Agencies must have governance structures, processes and officials in place to oversee and manage fraud and corruption risks. Agencies must keep records of those structures, processes and officials.**
- 5. Where an investigation has reasonable evidence of fraud or corruption, the departmental head is required to report their findings (see external units below) regardless of whether it relates to either public funds or the corrupt conduct of a Public Officer. There are no exceptions to this direction.**
- 6. An agency department head must have appropriate training and awareness and system to ensure that agency employees and their agents are aware of what constitutes fraud and corruption and what the agency's risks of fraud and corruption are.**
- 7. A department head is required to ensure that the protections under the *Whistleblower Act 2020* are captured as part of the fraud controls.**

**8. Government of PNG has a zero tolerance for fraud and any evidence of fraud must be lodged with the appropriate authorities for formal investigation.**

### **7.5 Non-mandatory Guidance**

In broad terms, managing the risk of fraud involves:

- Assessing an agencies overall vulnerability to fraud
- Identifying the areas most vulnerable to fraud risk
- Evaluating the scale of fraud risk
- Responding to fraud risk
- Detecting fraud
- Measuring the effectiveness of the fraud control plan
- Reporting fraud

An agency fraud control plan should capture the following:

#### **7.5.1 Definitions of fraud, corruption and dishonest dealings**

**“Fraud”** is the use of deception with the intention of obtaining personal gain for the perpetrator or for someone else, avoiding an obligation or causing loss to another party. Fraud can be used to describe a wide variety of dishonest behaviour including forgery, false representation and the concealment of material facts. The fraudulent use of IT resources is included in this definition, where its use is a material factor in carrying out a fraud.

**“Corruption”** is an activity in which a person acts contrary to the interests of the Office and abuses his/her position of trust in order to achieve some personal gain or advantage for themselves, or provide an advantage/disadvantage for another person or entity.

**“Dishonesty”** the quality of being untruthful or deceitful.

**“Whistleblower Occupational Detriment”** refers to any unfair treatment or harm an employee suffers as a result of reporting misconduct, fraud, or corruption (commonly known as whistleblowing). It is a form of retaliation aimed at discouraging or punishing individuals who expose unethical or illegal behaviour within an organisation.

### **7.5.2 Policy Statement and Governance**

- Establishes the agency's zero-tolerance approach to fraud and corruption.
- Defines the roles and responsibilities of senior management, audit committees, and other stakeholders.
- Assigns oversight of fraud risk management to a designated "Fraud Control Officer" or equivalent position.
- Identifies the points in an investigation where reporting to authorities is required and there is implementation and enforcement of investigation recommendations.

### **7.5.3 Fraud Risk Assessment**

- Identifies and evaluates potential fraud risks in the entity's operations.
- Considers both internal and external fraud risks, such as employee theft, procurement fraud, or vendor collusion.
- Recommend risk mitigation strategies tailored to high-risk areas.

### **7.5.4 Prevention Strategies**

Prevention is the most cost-effective method of managing fraud risks. Key strategies include:

- A strong system of internal controls through clear policies and procedures for financial transactions, asset management, and procurement.
- Segregation of duties to ensure no single individual has control over all aspects of a financial process.
- Maintain accurate and up-to-date supplier/vendor records, with due diligence checks for legitimacy.
- Strong emphasis on complying with an agency's procurement procedures.
- Promote an organisational culture that emphasises integrity and accountability.

### **7.5.5 Detection Mechanisms**

Even with strong preventive measures, fraud can still occur. Effective detection mechanisms include:

- Strong system of monthly and annual reconciliations, particularly for bank account reconciliations.
- Conduct regular audits to verify compliance with policies and detect irregularities.
- Encourage reporting of suspicious activities by providing anonymous and protected reporting channels.
- Train staff to recognise warning signs, such as employees living beyond their means or frequent changes in vendor bank details.

### **7.5.6 Response and Investigation**

The plan should outline clear procedures for responding to suspected fraud, including:

- Define how and to whom fraud allegations should be reported (e.g., Fraud Control Officer, ICAC, the Police).
- Establish protocols for internal investigations or engaging external investigators.
- Ensure evidence is secured and handled appropriately to support legal or disciplinary action – ensure proper training in investigations for any members of investigation teams, audit and risk committees and HR or disciplinary committees.
- Implement measures to address control weaknesses and prevent recurrence, particularly in ensuring that investigations document clearly any recommendations for improvement and enforcement of findings.

### **7.5.7 Implementation and Enforcement of Investigation Outcomes**

Departmental heads must have clear fraud investigation processes and methods and processes to enforce investigation outcomes.

Fraud often reoccurs because there is no enforcement of investigation outcomes.

Public entities must adopt a systematic approach to follow through on investigation recommendations and report evidence of fraud.

Where there is evidence of fraud uncovered during investigations, it must be reported promptly and appropriately. There is no discretion by a departmental head or a board not to report evidence of fraud and the governance mechanisms available are:

### **7.5.8 Internal Reporting**

Senior Management and Audit Committee are usually the internal reporting mechanisms.

### **7.5.9 External Reporting**

#### **7.5.9.1 *Independent Commission Against Corruption (ICAC)***

ICAC is the authority established under the Independent Commission Against Corruption Act 2020 as the key body to investigate and address corruption in Papua New Guinea, including fraud involving public funds.

- ICAC independently investigates reports of fraud involving public funds, ensuring impartiality and transparency.
- Works alongside other entities with legal powers to ensure a unified approach to combating fraud.
- After investigations, ICAC may recommend disciplinary actions, policy reforms, or refer cases for prosecution.
- Protects individuals who report fraud from retaliation, fostering an environment where fraudulent activities can be reported without fear.

#### **7.5.9.2 *Financial Analysis and Supervision Unit (FASU)***

FASU is established under the Anti-Money Laundering and Counter-Terrorist Financing Act 2015, serves as PNG's financial intelligence unit.

- Collects, analyses, and disseminates financial intelligence on suspicious transactions.
- Monitors compliance with AML/CTF regulations.
- Collaborates with domestic and international counterparts to combat financial crimes.

#### *7.5.9.3 Fraud and Anti-Corruption Directorate (Police)*

A specialised unit within the Royal Papua New Guinea Constabulary, tasked with investigating serious fraud and corruption.

- Investigates crimes such as embezzlement, bribery, and misuse of public funds.
- Works with other agencies, including the ICAC and Auditor-General, to bring perpetrators to justice.
- Supports prosecution to uphold law and order in financial governance.

#### *7.5.9.4 Financial Audits and Investigation Division (FAID)*

FAID operates within the Department of Finance and focuses on ensuring financial accountability and integrity within government entities through inspections and investigations.

- Conducts inspection audits and investigates financial mismanagement or fraud in public sector entities under the PFMA.
- Recommends improvements to internal financial controls.
- Refers cases of fraud to law enforcement agencies for prosecution.

#### *7.5.9.5 Ombudsman Commission*

An independent constitutional body established to promote good governance and enforce the Leadership Code.

- Monitors public officials, ensuring their compliance with the leadership code, financial and ethical standards.

- Investigates complaints of misconduct of leaders which are not limited to misuse of public funds but also address possible administrative breaches or systemic failures.
- Reports findings and makes recommendations to the leadership tribunal.

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## **FMM 02.8 Risk Management and Planning**

### **8.1 Authority or Prescribed Requirements**

- Public Finances (Management) Act (PFMA) mandates sound financial management, including the identification and mitigation of fiscal risks.
- Cybercrime Code Act 2016 provides legal requirements for cybersecurity and digital risk management.
- Audit Act 1989 empowers the Auditor-General to assess the adequacy of risk management practices within public entities.
- Climate Change (Management) Act 2015 requires the inclusion of climate risks in fiscal planning and public asset management.

### **8.2 Relevant Standards and Supporting Documentation**

- International Public Sector Accounting Standards (IPSAS) 1 requires entities to disclose information about risks that may affect financial performance or position, including uncertainties and assumptions underlying key estimates.
- IPSAS 19 – Provisions, Contingent Liabilities, and Contingent Assets provides guidance on recognising and disclosing provisions for risks that could result in liabilities, such as lawsuits, guarantees, or future obligations.
- IPSAS 24 – Presentation of Budget Information in Financial Statements outlines the need to monitor and disclose significant variances between approved budgets and actual results (and where there are financial or operational risks).
- IPSAS 30 – Financial Instruments: Disclosures requires entities to disclose financial risks, including credit risk, liquidity risk, and market risk, along with how these risks are managed.

### **8.3 Minimum Responsibilities**

Departmental heads are responsible for:

- Ensuring the agency has a robust risk management framework.
- Regularly review and update risk registers, including fiscal risks.

- Delegations of specific responsibilities for risk management and planning to:
  - Identify, assess, and monitor financial and operational risks.
  - Develop mitigation strategies and ensure alignment with the agency's objectives.

Internal audit units are to regularly audit risk systems and recommend corrective actions.

## **8.4 Mandated Policy**

- 1. All public entities must establish, implement, and maintain a risk management framework to safeguard public funds, ensure operational efficiency, and promote accountability.**
- 2. Risk management must be integrated into all financial and operational processes, including budgeting, procurement, asset management, and reporting.**
- 3. Risk assessments must be conducted periodically, and emerging risks must be addressed promptly.**
- 4. Entities must document all risk management activities and make them available for review by oversight bodies, including internal and external auditors and regulators.**
- 5. Public entities must ensure staff are trained in risk identification, mitigation, and monitoring, fostering a culture of accountability and vigilance.**
- 6. Public entities are to commence establishing steps to identify and document climate change related risks and factoring these risks into strategic, operational, and investment planning, particularly for major infrastructure assets**

## **8.5 Non-mandatory Guidance**

### **8.5.1 Climate Change and Resilience**

Given the importance of climate change resilience and its impact on the financial sustainability of an agency, departmental heads must undertake the

following measures to ensure their agencies are effectively contributing to climate adaptation and mitigation efforts:

1. All agencies should identify and document climate-related risks in their risk registers and monitored by their Audit and Risk Committee. These risks include physical risks (e.g., extreme weather events) and transition risks (e.g., policy shifts toward low-carbon economies).
2. Agencies should maintain a Fixed Asset Register that includes climate vulnerability and resilience information for major public assets.
3. Agencies should track and report on climate-related expenditures and outcomes.
4. Internal controls must be enhanced to address climate risks. This includes integrating climate resilience in procurement, project approvals, and operational processes.
5. Agencies should raise awareness and provide regular training to staff on climate change risks, resilience strategies, and their roles in supporting climate-responsive PFM practices.

As public officers overseeing public funds, it is important that we assist in the risk assessment of climate change and incorporate into policy and planning. This includes evaluating potential financial impacts of climate risks on our budgets.

The PNG Climate Change (Management) Act 2015 and the PFMA guide the integration of climate considerations into PFM and the Climate Change Development Authority has significant resources available on frameworks to support climate change <https://ccda.gov.pg/>.

All assets developed, planned, or acquired must undergo a climate risk assessment and how these are valued should also reflect their climate change risk. This ensures that their design, location, and operation account for potential climate impacts, such as flooding, extreme heat, or rising sea levels.

### **8.5.2 Purpose of Risk Management in PFM**

Risk management ensures that agencies anticipate and mitigate risks that could impact the achievement of financial and operational objectives.

Fiscal risks, such as revenue shortfalls, unanticipated expenditures, or natural disasters, must be integrated into the agency's risk management framework

including cybersecurity and digital risks which present significant threats that can compromise financial systems and data integrity. Major areas of risks to consider related to PFM:

- Budget overruns
- Revenue shortfalls/ volatility in warrants
- Debt sustainability
- Inefficiencies in service delivery
- Non-compliance with financial policies
- Misappropriation of funds
- Bribery and procurement fraud
- Misalignment with national objectives
- Poorly planned projects
- Data breaches
- Cyberattacks on financial systems
- Loss of critical financial data
- Fiscal impacts from natural disasters
- Infrastructure vulnerabilities
- Public perception of misuse of funds.
- Lack of transparency and accountability.

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## **FMM 02.9 Surcharge and Penalty**

### **9.1 Authority and Prescribed Requirements**

- Public Financial Management Act 1995 (consolidated to 2021) (the 'PFMA')
- Cybercrime Code Act of 2016

### **9.2 Standards and Supporting Documentation**

Nil

### **9.3 Minimum Responsibilities**

Secretary for Finance, Departmental Heads, Accountable Officers

### **9.4 Mandated Policy**

- 1. A surcharge is a statutory debt owed to the State, imposed on a person responsible for financial loss, mismanagement, or non-compliance with public financial management rules. Grounds for Surcharge under Section 102 of the PFMA include:**
  - Failing to collect, receive, or account for public money;
  - Making unauthorised or unrecorded payments;
  - Permitting breaches of financial procedures or control;
  - Failing to prevent loss, damage, or destruction of public money or property;
  - Breaching any provisions of the PFMA or Organic Law on Provincial Governments and Local-level Governments.
- 2. The Secretary for Finance has exclusive statutory authority to impose a surcharge.**
- 3. A surcharge must be published by Notice in the National Gazette, stating:**
  - the amount owed,
  - grounds for the surcharge,
  - and the Finance Secretary's opinion as the basis for imposition.
- 4. The surcharge amount is recoverable as a debt due to the State, and can be executed as a court judgment without further court proceedings.**

**5. Under Section 106 the Finance department head may authorise salary deductions to recover surcharge amounts.**

**6. Judicial review is allowed, but only after:**

- the full amount is paid into court, and
- security for costs is also lodged (Section 102(6)–(7)).

**7. The Finance Minister may annul a surcharge at any time by publishing a notice in the National Gazette with reasons for annulment (Section 104 PFMA).**

#### **9.4.1 Offences under the PFMA (Section 106A)**

**8. All offences are strict liability offences.**

**9. Breaches include any failure to comply with duties or financial obligations under the Act.**

**10. Penalties upon conviction:**

- Individuals: up to K2,000,000 fine or 15 years imprisonment.
- Non-individuals (e.g. firms or SOEs): up to K50,000,000 fine.

**11. Judicial consideration is given to the person's rank—senior officers are held to a higher standard.**

**12. Any person or firm subject to a surcharge or conviction is permanently barred from:**

- employment in public or statutory bodies,
- holding procurement contracts,
- and being contracted by any other entity with a public sector contract.

**13. The Finance Minister may suspend a person from office without pay if it is in the best interests of financial administration.**

**14. Suspension is issued by notice and published in the National Gazette.**

## 9.5 Non-Mandatory Guidance

### 9.5.1 Procedure for Imposition

- Before imposing a surcharge, the Departmental Head should obtain a detailed report on the matter. This report forms the basis for surcharge.
- Once satisfied there are reasonable grounds for surcharge, the Departmental Head should then issue a Notice of Proposed Surcharge.
- If there is no satisfactory explanation, or if there is no explanation within the period mentioned in the Notice, the Departmental Head may decide to impose the surcharge. He will then forward the Notice of Imposition of Surcharge to the person surcharged.
- The same procedure as above will be followed by the Secretary for Finance if he exercises his authority to impose surcharge under Section 102 of the PFMA.

### 9.5.2 Procedure for Recovery

According to Section 108 of the PFMA, the amount of surcharge may be recovered from a person as a debt. If amounts are due to that person by way of salary or other employment benefit, the Department should recover the amount of surcharge from the amounts payable after obtaining the approval from the Secretary for Finance.

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## **FMM 02.10 Sub-National Entities Financial Arrangements**

### **10.1 Authority**

- Public Finances (Management) Act 1995 (PFMA)
- Organic Law on Provincial Governments and Local-level Governments, 1998 (the 'Organic Law')
- Provincial Government Administration Act 1997
- Local level Government Administration Act 1997
- District Development Authority Act 2014

### **10.2 Minimum Responsibilities**

National Government core agencies provide policy, financing ceilings, system support, and audit oversight.

Provincial Assemblies, LLG Councils and DDA Boards approve plans, budgets and annual reports.

Provincial Administrators, District Administrators are departmental heads under the PFMA and are accountable for execution and control.

Provincial and District Finance Managers maintain books, operate the approved finance system and enforce internal controls.

### **10.3 Non-mandatory Guidance**

Sub-national administrations (Provincial Governments and Local-level Governments) are fully subject to the PFMA and all Financial Instructions and Manuals issued under it. In practice, this means provincial and local authorities must adhere to the same PFM standards and rules as national agencies.

#### **10.3.1 Distinct Responsibilities of Sub-National Governments**

While sub-national governments operate under the same PFMA framework, their responsibilities and powers in public finance differ from those of national departments. Provincial Governments and LLGs are not just spending agencies, they also have governing councils with authority to plan budgets, raise certain revenues, and manage funds for local service delivery.

They maintain their own financial management processes (e.g. provincial budgets, provincial warrants, and local revenue collection) in accordance with the law. The PFMA (Part IX) sets out specific provisions for provincial/LLG finance administration, recognising the broader role of sub-nationals.

Sub-national governments exercise a degree of autonomy in managing day-to-day finances through their Provincial Treasuries and District Treasuries. However, these local treasuries remain part of the integrated national financial system. The PFMA makes the Secretary of Finance (Departmental Head) responsible for overseeing Provincial and District Treasuries (PFMA Section 70(1)).

Each Provincial Treasurer is charged with ensuring that “public moneys in the Provincial Treasury are managed and released strictly in accordance with law.” In other words, provinces control their own spending processes (such as issuing warrants for payments out of the provincial treasury), but they must do so under the supervision of the Department of Finance and in line with the PFMA and FMM guidelines. Notably, the PFMA defines public moneys to include all funds received by a Provincial or Local-level Government (whether from national grants or local revenue). This means that once funds (from any source) are in the hands of a sub-national government, they are legally public funds and must be safeguarded and used according to the PFMA’s requirements.

### **10.3.2 Budgeting and Approval Process**

Sub-national governments have a formal budget process that parallels the national budget cycle, but with important distinctions. Each Provincial Government must prepare an annual budget projecting its own-source revenues, intergovernmental grants, and proposed expenditures for the coming fiscal year.

As part of the responsibilities under the National Budget, the Treasurer (Section 23) not later than 6 months before the end of a fiscal year, as part of the annual budget process, issue to provincial and LLGs a budget calendar. These budgets are passed by the respective Provincial Assemblies or LLG councils.

Section 141 of the OLPGLLG stipulates that a Provincial Government must submit its draft budget (appropriation law) to the Treasurer for approval. In practice, the provincial appropriation law passed locally does not take effect until it is endorsed by the Treasurer and this oversight ensures provincial

budgets are aligned with national fiscal policy and legal requirements. If a province fails to obtain timely approval for its budget, the organic law also provides for the deemed approval of the provincial/LLG appropriations after 60 days. This provision prevents government shutdown at sub-national level while reinforcing the requirement for prompt budget approval by the Treasurer. Aside from such emergency authority, no public money can be expended by a Provincial or Local Government without a valid appropriation or other legal authorisation.

Once approved, a provincial budget is executed by the Provincial Treasury. The province operates its own warranting process to release funds to departments and services under its jurisdiction. Essentially, after the national budget allocates transfers (grants) to the province and the province's own revenues are projected, the province issues warrants (spending authorisations) to its agencies in line with its appropriations. This process is similar to the national warrant system but is managed locally through the Provincial Treasury and administration.

### **10.3.3 Revenue-Raising Powers and Commercial Activities**

Unlike national departments, sub-national governments have legislatively defined revenue-raising powers and may engage in commercial activities. Within the limits of the OLPGLLG and national tax laws, Provincial Governments can levy and collect specific local taxes, fees, and charges to fund their budgets. In practice, provincial revenue is relatively limited and largely comes from a share of national taxes plus local sources. For example, provinces receive a portion of the national Goods and Services Tax (GST) collected in their jurisdiction (currently 60% of GST on domestic sales in the province) and a portion of bookmakers' taxes. They may also receive royalties from mining or petroleum projects in their area as provided by national resource laws.

Own-source revenues of provinces include various fees and licenses (such as liquor licensing fees, motor vehicle registration fees, local market fees, court fines) as well as income from any business ventures or property they own.

Local-level Governments similarly collect fines, fees and charges (e.g. trading licenses, land rents, etc.) where empowered by law. All such revenues must be paid into the Provincial Government's General Revenue Fund or Local Government accounts, and are considered public funds to be budgeted and spent according to the appropriations and PFMA.

Sub-nationals do not have unlimited taxing power, they can only impose those taxes or charges authorised by the OLPGLLG or other Acts, and major revenue sources remain national. Still, the ability to generate and retain some revenues distinguishes provincial finances from national agencies that rely entirely on central government appropriations.

Sub-national governments also have the capacity to operate commercial enterprises or investments but these are considered to be subsidiary statutory bodies and still subject to the PFMA.

Many provinces maintain business arms or invest in companies (for instance, provincial development corporations, commercial ventures in agriculture, transport, real estate, etc.) to generate income. The PFMA recognises this reality and places safeguards on sub-national commercial financial activities.

Section 66 of the PFMA governs how Provincial or Local-level Governments may invest funds that are not immediately needed and there are requirements to publish investments within 30 days of the end of each quarter within a fiscal year, the full and complete details of each and every investment made or existing in that quarter by the classes of investment.

Another area of financial power is borrowing and debt. National departments cannot borrow money on their own, but a Provincial Government can take on certain loans or debts, subject to strict conditions. Section 67 of the PFMA allows sub-national authorities to borrow with Treasurer approval. These provisions ensure that sub-nationals do not accumulate unsustainable debt or contingent liabilities that could affect national fiscal stability.

#### **10.3.4 Oversight, Accountability and Governance**

All sub-national finances are subject to independent audit. The PNG Constitution and OLPGLLG mandate the Auditor-General to audit the accounts of Provincial Governments and LLGs annually (similar to the audit of national departments).

Each province and LLG must prepare annual financial statements and submit them for audit. According to OLPGLLG Section 114, provincial administrations are required to produce an annual statement of their financial position and affairs, and the PFMA Section 71 adds that the content of these statements

must meet the specifications of the Financial Instructions, the Finance Management Manual included.

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## **FMM 02.11 Retention of financial data and records**

### **11.1 Authority and Prescribed Requirements**

- Public Finances (Management) Act 1995 (PFMA) Section 5(4) requires Departmental Heads to ensure financial accounts and records are maintained in compliance with financial management standards.
- National Library and Archives Act 1993 establishes requirements for the retention, archiving, and disposal of government records, including financial documents. It requires that any 'government publication' must have two copies deposited with the National Library. It also requires a departmental head, on request by the Director-General, an annual report of the condition of libraries and archives held by the agency.
- Tax Administration Act 2017 and Income Tax Act 2025 specifies retention periods for financial records related to taxation for a period of seven years.
- Electronic Transactions Act 2021 governs the retention, use and integrity of electronic records and transactions and legislates that the electronic version of any account or record, with specific exclusions such as trust deeds, have the same legal powers as the original record (with specific conditions on the security and identify of the record).
- Auditor-General Act 1989 outlines requirements for retaining financial data for audit purposes.
- Anti-Money Laundering and Counter-Terrorism Financing Act 2015 Requires the retention of financial transaction records for due diligence and compliance monitoring.

### **11.2 Relevant Standards and Supporting Documentation**

- General Order 23 of the Public Services (Management) Act requires that the statute of limitations on specified employment records which includes payroll information by the employee agency is for a period of not less than seven years
- IPSAS 1 (Presentation of Financial Statements) requires entities to retain

- sufficient documentation to support the preparation of financial statements.
- ISO 15489 (Records Management) can provide guidance on the creation, retention, and disposal of records in a structured and compliant manner.

### 11.3 Minimum Responsibilities

Departmental heads are to establish and enforce policies for the retention and secure storage of financial data and records and to ensure compliance with retention periods specified under applicable laws and standards. The departmental head, in accordance with the National Library and Archives Act shall also prepare every five years, an inventory of all public records held by the public entity and a further inventory specifying the public records which are not to be retained.

Heads of finance are to maintain accurate and up-to-date records of all financial transactions and reports and safeguard records against unauthorised access, loss, or damage.

The Director-General of the Office of Libraries and Archives is required to establish the standards for libraries and archives.

The Finance departmental head is required to index and retain financial records within the Government's approved finance system, unless delegated to a departmental head when using an alternative approved finance system.

### 11.4 Mandated Policy

- 1. All public entities must retain financial data and records for at least seven years to ensure compliance with legal, regulatory, and operational requirements (electronic or otherwise).**
- 2. All Public Entities are required to implement the *Electronic Transactions Act 2021* (ETA) which provides for the powers to store financial data and records electronically. Public Entities are not required to retain hard copy records where its retention complies with the standards under the ETA.**
- 3. Some critical records and government publications must be retained indefinitely and these are identified and guidelines for their retention are issued by the Director-General of the Office of Libraries and Archives.**

#### **4. Departmental heads are required to index and catalogue records in an inventory.**

### **11.5 Non-Mandatory Guidance**

#### **11.5.1 Definition of Financial Records**

Financial records include all documents that provide evidence of financial transactions, obligations, and reports, such as:

- Evidence of procurement using public funds being followed.
- Payment vouchers, receipts, and invoices.
- Bank reconciliations and statements.
- Budget documents and financial plans.
- Annual financial statements and audit reports.

#### **11.5.2 Secure Storage of Records**

- Maintain physical records in secure, climate-controlled storage facilities, however, the Electronic Transactions Act enables the storage of records and electronic and this does not require the duplicate retention of physical records. All public entities are actively encouraged to digitalise records and appropriately destroy rather than store physical records unless required to be maintained as a physical record under legislation.
- Use encrypted digital storage systems with regular backups for electronic records. Cybersecurity and disaster recovery is paramount.

#### **11.5.3 Implement Record-Keeping Systems**

- Utilise document management systems to organise and index financial records for easy retrieval. Financial transactions recorded in IFMS and most modern financial systems are organised and indexed by the system.
- Regularly update systems to reflect changes in retention policies.

#### **11.5.4 Conduct Regular Audits**

- Periodically review retained records for completeness and accuracy.
- Ensure records meet legal and operational standards for audits and reviews and periodically review them – this is to check that they are well maintained and complete and for electronic records you are checking the

integrity of the storage (particularly on drives) and if someone has accessed without authority.

### **11.5.5 Plan for Disposal**

- Dispose of records that have exceeded their retention period in a secure and compliant manner.
- Document the disposal process and ensure no sensitive information is exposed.

### **11.5.6 Specific Requirements when retaining electronic records**

#### **11.5.6.1 Accessibility**

- The electronic record must be accessible for future reference by all authorised parties. So records must remain in a readable format and include any metadata or information necessary for interpretation.

#### **11.5.6.2 Integrity**

- The record must be maintained in its original form, ensuring it has not been altered or tampered with.
- Any changes made to the record (e.g., updates or amendments) must be tracked and logged.

#### **11.5.6.3 Reliability of Storage Systems**

- The electronic storage system must be secure, reliable, and capable of safeguarding data from unauthorised access, loss, or damage.
- Storage solutions should include disaster recovery and backup mechanisms to ensure record continuity.
- Records must be retained for the legally prescribed duration even if electronic.

#### **11.5.6.4 Auditability**

- Electronic records must include sufficient metadata to verify their origin, authorship, and the date of creation or modification.
- Systems must support audit trails to monitor access and changes to the records.

#### **11.5.6.5 Specific requirements for legal recognition of electronic records**

- Under the ETA, electronic records are considered equivalent to paper records, provided they meet the Act's requirements for accessibility and integrity.
- If the record requires a signature, an electronic signature that complies with the ETA must be used. The electronic signature must be unique, verifiable, and linked to the individual signing the document.
- Time-stamping may be required to validate when the electronic record was created, sent, or received.
- Electronic records must be maintained in a format that is compatible with future technological advancements or converted into accessible formats during migrations.

#### **11.5.6.6 Technical and Operational Considerations**

Cybersecurity and protection of government information is important and a responsibility of the department head. Department heads need to consider the following:

- Implement encryption for finance records to prevent unauthorised access.
- Use role-based access controls to ensure only authorised officers can view or modify records.
- Maintain regular backups of electronic records in multiple secure locations.
- Test disaster recovery procedures periodically to confirm system reliability.
- Periodically review and update storage systems to ensure they remain compliant with the ETA's requirements. Retain original metadata and ensure no loss of integrity during the process.
- Document any system upgrades, migrations, or changes that affect the records. Ensure records remain intact and accessible during system migrations or upgrades.

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