

# FINANCE MANAGEMENT MANUAL



Volume 6 - Elected Member's Short Guide to PFM in PNG



issued by Department of Finance

Role of Government  
and the Executive in  
public finance

Understanding the  
procurement to pay  
cycle

Interpreting financial  
outcomes and use of  
public funds

# Government of PNG

## Financial Management Manual

### Volume 6

## Elected Members Guide to Government of PNG Public Financial Management

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** outlines PNG's Public Financial Accountability and Governance

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

**Volume 4** discusses Financial Reporting

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

**Volume 6 (this volume)** is an Elected Members Guide to PNG PFM to advise all elected officials on PNG's Public Financial Management arrangements

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

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## **FMM 06.1 Fiduciary Responsibilities and Your Governance Role**

### **1.1 Why this guide matters**

This volume is different from the technical instructions in all other volumes as it is a guide dedicated to supporting an elected members in their role in managing public funds. It covers fiduciary responsibilities, how to safeguard public money, basics of procurement, evaluating development proposals, the national budgeting and capital planning process, public revenues and borrowing, and using financial reports to make decisions.

As an elected official, you have been entrusted by your community to make decisions that will affect their daily lives. Managing public finances may seem difficult, but it's one of your most important duties.

When you assumed office, you accepted a fiduciary duty to act in the best interest of the public and is a trust over public money and resources. This means you must exercise care, loyalty, impartiality, accountability, and integrity in all financial decisions. In simple terms, always remember whose money it is you're managing.

## 1.2 Key fiduciary duties for PNG officials

### Duty of Care

- Make decisions diligently and prudently. Before approving spending or projects, do your homework. Seek advice from financial officers and read the relevant reports. Act as if every Kina is coming from your own pocket – because in a sense it’s coming from the people’s pocket.

### Duty of Loyalty

- Put the public’s interest ahead of your own or any private interests. Avoid conflicts of interest – for example, you should not direct contracts or jobs to family or wantoks. Your paramount loyalty is to the citizens and the law, not to political backers or personal gain.

### Duty of Impartiality

- Treat all constituents and stakeholders fairly. Don’t favour one group improperly in budget decisions. Funds should be allocated based on need and merit, not favouritism.

### Duty of Accountability and Transparency

- Be open about how decisions are made and how funds are used. This means ensuring proper records are kept and being honest in reporting outcomes. The Leadership Code and the PFMA both emphasise accountability – breaches can lead to investigation or removal. Always be prepared to explain your decisions and show that public money is used for public benefit.

In your governance role, you are likely to oversee budgets and programs and perhaps chair committees. Your job is policy and oversight, while public servants handle day-to-day administration.

It is up to you to ask tough questions and insist on proper financial management. If something doesn't look right such as an unexplained expense, a delayed project, or a sudden blowout in costs then dig deeper.

Even at the local level, the sums of money are large, and the impact of mismanaging them is enormous. Misuse or wastage of these funds means cities, towns and villages don't get clinics, schools remain in disrepair, or roads stay unbuilt.

Your decisions on financial matters directly affect development outcomes.

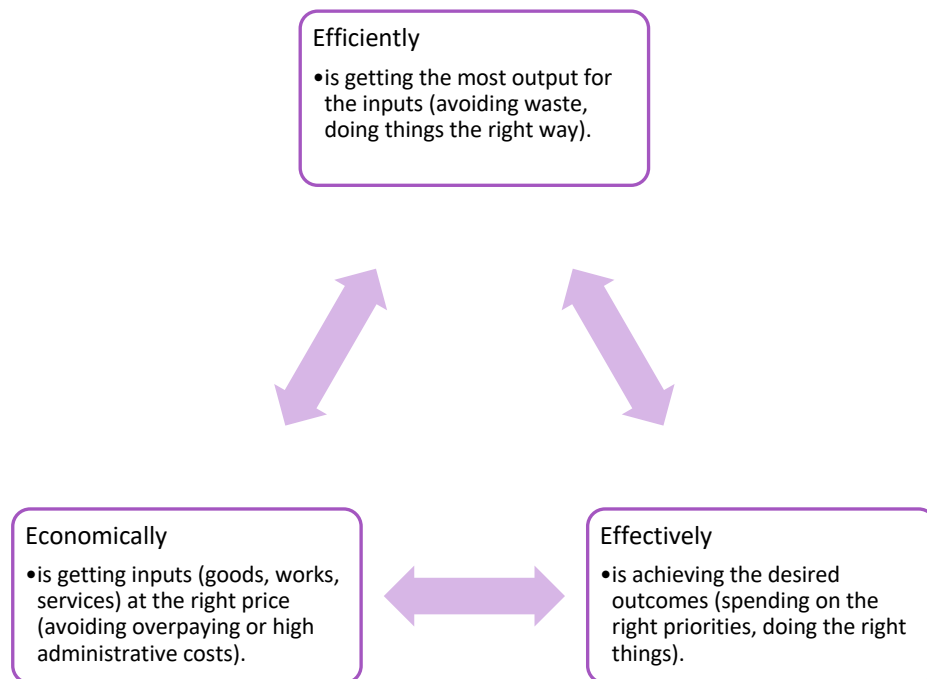
The fiduciary responsibility is about trust and good governance. The community trusts you to be a “wise steward of the public’s resources”. Embrace that role by making decisions that are honest, well-informed, and focused on the public good. This mindset will guide everything else in this guide.

## FMM 06.2 Protecting Public Funds and Achieving Value for Money

Public funds are precious and finite. Every Kina comes from taxpayers, borrowed money, donor budget support or resource schemes, and there are many needs competing for it. Protecting public funds means ensuring they are not lost, wasted, or stolen, and that each Kina spent provides as much benefit as possible – this is what we mean by achieving “value for money.”

### 2.1 What is Value for Money (VfM)?

In public finance, value for money means using resources with an eye on the benefits achieved



It’s not just about finding the lowest price – it’s about the best outcome for the cost. For example, suppose your province budgets K1 million for school supplies. Economy means buying the required library books at a fair price usually achieved through multiple quotes. Efficiency means the process of purchase and distribution is well-organised so that most of the money goes to books, not to middlemen or excessive transport costs. Effectiveness means those books reach schools and improve children’s learning (the intended outcome). If you buy cheap books that fall apart (poor quality), that might be economical but not effective. If you buy good books but half the money is lost to an expensive delivery process, that’s not efficient. You need all three in balance to achieve true value for money.

## 2.2 How to Guard Public Funds

Protecting funds starts with a mindset “it’s the community’s money, not ours.” This perspective will help you to be vigilant. Here are some practical tips to protect funds and ensure value:

- *Insist on policies and follow them.* Strong financial policies (for budgeting, spending, and reporting) act as safeguards. For instance, a policy might require multiple sign-offs for expenditures above a threshold, or competitive quotes for purchases. Another example is bringing in a financial assistance scheme to establish how funds are to be distributed or administered **before** commitments are made.

If policies are absent, unclear or routinely bypassed, that’s a red flag. Many public finance failures occur when “oversight was inadequate” or policies weren’t followed. As an official, support clear rules and enforce them consistently (the Finance Management Manual are volumes documenting rules and procedures and should be followed by all finance officers, accountable officers and delegates).

- *Promote ethical conduct.* Corruption and fraud are the enemies of value for money and people will try to induce you to make decision that is not in the public interest. Be a role model of integrity and set expectations that things like kickbacks, bribes, nepotism, or misuse of public assets are unacceptable.

Encourage a culture where whistleblowers (who report wrongdoing) are protected. The more transparency and ethical behaviour, the less leakage of funds. Misusing public funds can lead to criminal charges; but beyond that, it erodes public trust and deprives your community of needed services.

- *Aim for outcomes, not just spending.* It’s easy to equate spending money with doing something useful, but they’re not the same. A road project might use up its budget, but if the road washes out each wet season due to poor construction, the public got little value. Ask for results: How many kilometres of road were actually built of good quality – was adequate quality testing done? How many students are actually using that new classroom? By focusing on outcomes, you push the system to deliver real value.
- *Avoid “IOU” spending.* Do not commit funds you don’t have. Ensure that each expenditure has an authorised budget and cash available. This

prevents accumulation of arrears (unpaid bills) that can plague future budgets. Ensure that those unpaid bills are allocated for in future budgets before committing additional funds.

The PFMA requires that funds are spent only as appropriated and for intended purposes – and for good reason. Spending without appropriation or misapplying funds (e.g. using education funds to buy new vehicles for officials) is illegal and undermines services. As an elected official, you have a duty to question and prevent any off-budget or unauthorised spending.

- *Ensure regular monitoring.* Don't wait until year-end to see if funds were used properly. During the year, review budget reports (we'll discuss these later) to track spending. If a department has spent 90% of its funds halfway through the year, that's a concern – you might ask the administrators why and what the plan is to stay within budget. Early detection of issues can save money.

For example, suppose your district allocated K5 million for a rural water project. Protecting these funds and getting value might involve: calling a meeting with the project team to review the implementation plan, ensuring that procurement for contractors is competitive (to get a good price and quality), checking that the project scope isn't inflated with "nice to have" extras or perks for the project team or administrators that don't benefit those accessing the water, and later, visiting the project site during construction to verify progress. By being hands-on in oversight (without micro-managing), you signal that every Kina must count.

In short, Value for Money is about a mindset and practice of respecting public funds and making sure it goes as far as possible for the public's benefit.

PNG's own procurement and finance legislation embed this principle – for instance, the National Procurement Act 2018 explicitly lists "value for money" alongside accountability, fairness and transparency as fundamental principles of our public procurement system.

"Is this the best use of public funds? How will we ensure we get good value?"

## **FMM 06.3 Procurement - Transparent, Fair, and Cost-Effective Processes**

Public procurement has a broad definition in the National Procurement Act 2018 and is essentially buying/leasing/obtaining works, goods, and services using government moneys.

It's often said that procurement is high-risk and if not managed well, it can be a source of corruption, waste, and poor results.

The National Procurement Act (NPA) 2018 lays out fundamental principles that all public procurement should follow: fairness, transparency, competition, accountability, and value for money.

### **3.1 Transparency**

Procurement should be open. This means clear advertisement of opportunities (so all eligible suppliers/contractors can bid), and clear procedures. Decisions (like who won a tender and why) should be documented and available for scrutiny. Openness builds trust and deters shady deals.

Under the PNG procurement processes, all public entities (including PG-LLG administrations, their subsidiaries and District Development Authorities, and for Minister's, your departments and other offices or bodies) are required to develop an annual procurement plan at the beginning of the year following the budget.

By publishing this procurement plan you are also giving suppliers particularly SMEs wanting grow, an opportunity to know what possible procurement opportunities that may happen that they can plan for.

### **3.2 Fairness and Integrity**

All bidders must be treated equally. No insider information to preferred bidders, no changing the rules midway, no accepting bribes or favours. No seeking of quotes or tenders without also providing them with the information on how their quote or bid will be evaluated against other bidders.

The process should be clean. As an official, never interfere to skew a tender result.

### 3.3 Competitive Bidding

Competition is the government's best friend to get a good deal. Encourage multiple bids or quotes for any significant purchase. Monopolies or single-sourcing (without very good reason) can lead to overpricing. By law, contracts over a K1 million must go to tender.

The National Procurement Commission (NPC) handles large tenders (generally above K1 million, with local preference rules), as do provincial, district and special procurement committees. Even at the local level, you should insist on competitive processes for hiring contractors.

#### Use benchmarking in the absence of competition

At local level, particularly rural and remote, it can be difficult to establish competitive bidding. Where this isn't the case, you can still ensure open value for money by benchmarking the costs against what is reasonable or what others are paying – even what the costs would be expected in other countries. For example, for road rehabilitation – seek advice on the expected standard cost for the road in question and **don't just accept a single bid as what represents value for money.**

### 3.4 Accountability

There must be clear lines of responsibility. Typically, the NPC board or procurement committee establishes a technical and financial evaluation committee (TFEC) to evaluate bids and recommend awards. Officials involved must declare any conflicts of interest and recuse themselves if necessary. And once contracts are awarded, someone (an officer or project manager) is accountable for ensuring the contractor delivers.

As an elected official, your role may be to oversee procurement and to enforce that proper procedures are followed. If something goes wrong (like funds misused in a contract), accountability means investigating and taking corrective action (possibly involving law enforcement or anti-corruption bodies if fraud is suspected).

### 3.5 Value for Money

This ties back to the previous section. Procurement is where value for money is either achieved or lost. A fair, competitive process helps get the best price and quality combination. It's not always the cheapest bid that wins – it should be the most advantageous, considering quality, delivery time, and so on. Ensure evaluation criteria are not just cost but also quality and capacity of the bidder to perform.

### 3.6 The Procurement Cycle

Most procurements follow a cycle: planning → advertising → bidding → evaluation → award → contract management → completion. The National Procurement Commission – Good Procurement Guide provides the procurement steps.

For example, suppose the local government needs to build a new health outpost in a village.

- **Planning.** The works manager draws up a plan and cost estimate (say K500,000) and you ensure the funding is approved in the budget. Decide the procurement method – for K500,000, a district development authority or provincial government can seek quotes but it may be beneficial to go to tender to get more interests. Section 26 of the National Procurement Act outlines this.
- **Advertising.** The project is advertised (e.g. on a public notice board, newspaper, or online) with a clear description of the work and how to bid. Transparency here ensures many contractors know about the opportunity. Consideration should be given as to whether to require a tender lodgement fee – generally this is not recommended in smaller contracts as it reduces opportunity for PNG SMEs.
- **Bidding.** Interested contractors prepare bids by a set deadline. These include their price, qualifications, schedule, and other required documents.
- **Evaluation.** A delegated TFEC or internal committee evaluates the bids. They typically use predetermined criteria: cost (within budget), technical capacity, relevant experience, etc. This step must be objective with no political influence. As an observer or oversight authority, you'd want to ensure the evaluation report is thorough and justifies the recommended winner. It is important that there are no significant delays in this evaluation process.

- **Award.** The contract is awarded to the winning bidder (often the best score on price+quality). Those not selected should be informed (this is part of transparency and fairness). If any bidder complains (perhaps suspecting foul play), there should be a process to review that (e.g. an appeals with the APC Committee within the Department of Finance). A contract agreement is signed, clearly defining what will be delivered, timelines, payment terms, etc.
- **Contract Management.** This is where many issues happen. After award, ensure that work actually begins and the contractor performs. Regular site supervision is needed and quality checks. Payments should be tied to milestones or progress, and only made for work done. If variations (changes) to the contract occur, they should be minor (less than 10% of the contract). As an official, you might get progress reports. If a contractor is failing, support the administrators to enforce the contract (even terminating it if needed and calling in performance guarantees).

Don't allow "ghost" projects or contractors paid for nothing – insist on verification.

- **Completion and Evaluation.** Once the outpost is built, there should be a handover, and an inspection to ensure it meets specifications. Only then should final payment be released. It's wise to request a brief post-project evaluation - did we get what we paid for? Were there lessons learned to apply next time?

Be alert for warning signs such as repeated sole-sourcing (awarding contracts without competition) without good reason, quotation splitting (splitting one project into many small pieces to avoid tender thresholds), unusually high contract prices (compared to estimates or similar projects elsewhere), or contractors who always seem to win or alternate winning (could indicate collusion). If you notice these, ask questions.

It's your job to protect the public from deals that only benefit a few.

## FMM 06.4 Assessing Development Proposals by using Cost-Benefit and Feasibility Analyses

As an elected official, you will be presented with many development proposals often unsolicited by vendors themselves. These might be ideas for new projects (build a market, pave a road, use solar, start a health program) coming from various sources – community leaders, NGOs, businesses, or your own election promises.

It's exciting to consider these projects, but the key is to vet them carefully before committing public funds.

Two important tools for this are Cost-Benefit Analysis (CBA) and Feasibility Analysis.

The *PNG Public Investment Program Guidelines* from Department of National Planning and Monitoring are an excellent resource to identify and evaluate the benefits of the public investment and the project documents are mandatory when seeking to bid for funds under the Public Investment Program of the National Budget.

### 4.1 Understanding Cost-Benefit Analysis (CBA)

In simple terms, a Cost-Benefit Analysis is a way to compare what a project will cost with what benefits it will deliver, all in a systematic way. It helps answer the question: "Is this project worth it?"

A formal CBA tries to quantify in monetary terms all the costs and all the benefits of a project over its life. If the total benefits exceed total costs, the project could be considered to have a net gain for society or a good public investment. If costs outweigh benefits, it may not be justified.

Cost-benefit analysis (CBA) is a key tool in public decision-making, designed to evaluate the economic viability of government programs and projects.

## **4.1.1 How to approach a CBA**

### *4.1.1.1 List the Costs*

Look at all costs involved in a proposal. This includes obvious financial costs (for example, K2 million for construction, K200,000 annual operating costs for staff and maintenance) and also any indirect costs or negatives (like if a road goes through crops, there is a cost to those families; or if we build a new clinic, the opportunity cost might be that those funds can't build two smaller aid posts elsewhere).

Also consider the full life-cycle, initial one-time costs plus recurring costs over the project's useful life. Will new staff need to be hired? Will there be fuel or electricity costs? A project that looks affordable to build might be very expensive to operate year after year.

### *4.1.1.2 List the Benefits*

Identify who and what will benefit, and how. Some benefits are financial (a market might generate revenue or farmers' incomes increase). Others are social or economic benefits that are harder to put in Kina terms (a new health clinic might save lives and increase productivity; a new road might save travel time and vehicle operating costs). Try to quantify benefits if possible – e.g., “this road will cut travel time by 30 minutes for 500 people daily, which is 250 hours saved per day.” Or “the new market can boost local trade by an estimated K10,000 a week.” Even when benefits are social (better health, education), you can describe them: how many people gain access to services, how significant the improvement is, etc.

### *4.1.1.3 Compare and Consider Alternatives*

Once you have an idea of costs vs. benefits, compare them. If benefits outweigh costs, that's a point in favour. If not, rethink. Also consider alternative ways to achieve the same goal. For instance, is building a brand-new market the best solution, or could expanding an existing market yield 80% of the benefit at 50% of the cost? Sometimes a simpler, cheaper project can address the need effectively. Don't get locked into one solution – look at options and choose the one with the best cost-benefit ratio.

### *4.1.1.4 Consider Intangibles and Risks*

Not everything is about numbers. Some benefits or costs are qualitative and can't be measured as numbers such as community goodwill, cultural impacts,

environmental effects. Also consider risks: what could go wrong that makes the benefits not materialise? (E.g., if a new agricultural project depends on reliable roads, what if roads remain poor?), are there any impacts from climate change to be factored into it use? Adjust your expectations if there are significant risks.

Imagine a proposal to build a small hydro power generator for a remote area. Cost: K4 million capital, plus K0.5m/year operating.

Benefits: will provide electricity to 5,000 people, saving households K100/year each in generator fuel and giving them better quality power (which might enable small businesses and improve living standards).

Over a 20-year project life, the financial savings to households might total K10 million (5,000 people  $\times$  K100  $\times$  20 years), which outweighs the K4m + (0.5m $\times$ 20=10m) = K14m cost?

Actually that would be K14m cost vs K10m direct financial benefit, not great purely financially. But add the qualitative benefits (education, health from lighting, new businesses) and maybe some tariff revenue, and perhaps it justifies if those intangible benefits are valued highly by the community.

The analysis isn't always clear-cut, but laying it out helps you make a reasoned decision or seek improvements (maybe there's a cheaper technology, or a grant from national government to offset cost).

Don't accept proposals at face value and don't ask them to complete the CBA. Ask "What will this cost to build and to run? What will it achieve? Who benefits and by how much? Are there cheaper ways to do this? Why not do something else?"

These questions are the essence of cost-benefit thinking.

Elected officials use these questions to prioritise projects because resources are limited. If you have, say, K10 million in your provincial budget for new projects, and K30 million worth of proposals, cost-benefit considerations can guide you to fund the projects with the highest impact for the money.

## 4.2 Understanding Feasibility Analysis

A Feasibility Analysis is different to a CBA because it only asks: “Can this project be done successfully?” It looks beyond cost and benefit to practical viability. Even if something looks great on paper (high benefit-cost ratio), it might fail if it’s not feasible. Feasibility studies typically cover several aspects: technical, financial, economic, legal/regulatory, and operational feasibility but it can also look at overall value for money.

### 4.2.1 Technical Feasibility

Is the project technically possible with the resources and context we have? For example, proposing a high-tech IT system in a district with no reliable internet or power might be technically infeasible at the moment. Or building a large hospital might be technically feasible but do we have the doctors and staff to run it? Make sure the project fits local realities (e.g., soil conditions for a road, availability of contractors, etc.).

### 4.2.2 Financial Feasibility

Do we have the funding to implement this and sustain it? A project might need a big upfront investment or ongoing subsidies. Check funding sources: will it be funded by the national government, donor, or local revenues? If a donor is funding construction, can you afford future maintenance? If not, the project might fail in the long run. Sometimes this overlaps with cost-benefit, but feasibility focuses on the likelihood of securing funds and managing properly.

### 4.2.3 Economic Feasibility

This is similar to cost-benefit – ensuring the project makes economic sense. Often, if a project has a strong economic net benefit (CBA positive), it’s economically feasible. But also consider if the local economy/community can support or use the project fully. (Building an elaborate fish market is economically infeasible if fishermen can’t actually catch enough fish to use it.)

### 4.2.4 Legal/Environmental Feasibility

Are there any legal barriers or environmental concerns? For instance, if land acquisition is required, is land title clear, is clearing required of crops? In PNG, landowner issues can stall projects indefinitely if not handled. Or if a project could violate environmental laws (e.g. a mining or logging project), feasibility is low unless those issues are resolved. Always check alignment with policies and regulations – a project might need approvals (e.g. from CEPA for environmental impact assessments).

### 4.2.5 Operational/Institutional Feasibility

Who will run this project once it's completed and are they capable? Many projects falter after construction because there's no clear plan or capacity for operation. For example, building a new vocational training centre is great, but do we have teachers, and who will pay their salaries? Is there an institution ready to take over?

A feasibility asks "Can we get it done and will it actually deliver the intended results in practice?" A feasibility study often results in a go/no-go or modification decision. It might say, "Yes, feasible if certain conditions are met (like securing skilled staff or additional funds), otherwise not." Use these findings to either proceed, postpone, redesign, or cancel a proposal.

For example, the district is considering building a sugar mill to help farmers get more value from their land. The idea is that instead of subsistence farming, they grow sugar and sell to the mill, increasing income.

Cost: K30 million (with a promise that a foreign partner will put in the money if landowners lease out the land). Benefits: could triple farmers' incomes for 1,000 families as well as indirect activity within the surrounding district.

Now, feasibility check: Do farmers have the capability and resources to grow sugar and to supply the factory? Is there a stable market to buy the processed product? Do we have power and water at the site? Will the landowners get an equitable share for what they are contributing? If the foreign partner pulls out, can we afford completion? These questions might reveal significant challenges. Perhaps the outcome is that it's feasible only if a private operator is brought in, or if farmers are organised into a cooperative to supply it. Or maybe it's not feasible at all right now, and a smaller pilot project is better. Asking these questions upfront prevents wasted investments in "white elephant" projects.

As an official, you might not do these analyses yourself, but you can insist that they are done. For any major project, require a project proposal document that includes at least a basic cost-benefit discussion and a feasibility assessment. The Department of National Planning & Monitoring require feasibility studies for projects seeking funding under development budgets or donor support. Align with those practices.

## FMM 06.5 Budget Processes - How to Read and Interpret Budget Documents

### 5.1 The Budget Cycle at a Glance

In any year, the governments are running 2 cycles at any given time – formulating the forward year budget and executing the current year budget. In addition agencies including provincial and local-level governments are required to convene project steering committee for projects funded through the public investment program under the national monitoring framework.

Month	Forward-Year Budget Formulation (next FY)	Current-Year Execution & Review
Jan	Treasury requests cash-flow & work-plans for current year; agencies begin internal scoping for next budget.	Cash-flow released for Q1; sub-national entities commence implementation.
Feb	<i>Final Budget Outcome (FBO)</i> for previous year tabled; <b>Budget Circular 1</b> issues the National Budget Timetable.	
Mar	Macro-economic forecasts; agencies lodge Early Estimates; DNPM opens PIP portal.	
Apr		<b>Q1 Budget Review</b> due (30 Apr) – includes staffing & performance tables.
May	Treasury sets draft ceilings; DNPM screens PIP submissions; agency ceilings uploaded to IFMS.	
Jun	<b>Budget Ceiling Circular</b> released; agencies start full submissions.	Face-to-face Q1 review meetings with provinces & line agencies. Supplementary Budget considered.
Jul	<b>MYEFO</b> published (31 Jul) – may adjust ceilings; agencies finalise bids.	<b>Q2 Budget Review</b> due (11 Jul); Mid-Year Review meetings.
Aug	<b>Budget submissions close.</b>	
Sep	Strategic Budget Committee (SBC) hearings.	<b>Q3 cash-flow revised.</b>
Oct	NEC settles allocations; Treasury drafts budget documents.	<b>Q3 Budget Review</b> (21 Oct).
Nov	<b>Budget tabled</b> second Tuesday; Parliament debates Appropriation Acts.	
Dec	<b>Sub-National Budget Circular</b> issued provinces, LLGs, DDAs to formulate their own budgets aligned to national appropriations.	Close-of-Accounts

For Sub-national administrations including the Districts:

- The Department of Treasury will issue a December circular that triggers provincial & LLG formulation of their own budgets once National Budget is certified by Parliament.

- Provincial Executive Council (PEC) adopts a Provincial Budget Strategy, uploads budgets to IFMS and submits to the Treasurer for ‘Section 105/209’ approval.
- District Development Authority Boards approve district budgets and likewise submit to Treasury.
- Treasury vets consistency with the Appropriation Act, releases IFMS budget packs and issues the provincial warrant authorisation.

## 5.2 Reading the National Budget Volumes

PNG’s National Budget is tabled as a set of volumes every November. The titles vary slightly year-to-year but follow the pattern below.

Document / Volume	What it contains	Why it matters to you
<b>Budget Speech</b>	Treasurer’s policy narrative, headline figures, new initiatives.	Quick sense of priorities and any new grants affecting sub-nationals.
<b>Volume 1 Economic &amp; Development Overview</b>	GDP, inflation, debt, revenue outlook; MTFS consistency statement; summary of expenditure by sector. Tax measures, dividend expectations, borrowing plan.	Assess fiscal stance (expansion / consolidation) and macro trends driving transfers. Gauge sustainability; anticipate future transfer envelopes.
<b>Volume 2A–D Agency &amp; Transfer Estimates</b>	Line-item appropriations for every department, constitutional office and all grants to provinces, LLGs, DDAs & statutory bodies.	Confirm your province’s Grants, PSIP/DSIP, health & education grants, and any special transfers.
<b>Volume 3A-B Development Budget (PIP) Books</b>	Capital projects funded by loans, donors or GoPNG. Listed by sector & location (often a ‘Regional’ annex).	Locate projects in your electorate; follow up with implementing agencies & DNPM.
<b>Appropriation Acts and Tax Amendments</b>	Legal authorisation of spending by Vote and by Investment expenditure.	Ultimate reference if a funding line is questioned.

## 5.3 Quick Tips for Interpreting the Numbers

- Track year-on-year movements, for example, a drop from K5 million to K3 million equals a 40% cut, so plan service levels accordingly and know what commitments have been made to ensure that these are paid first.
- Read footnotes as some grants list allocation formulae (population, road km, health facilities). Understanding the formula arms you for equitable-share debates.
- Separate recurrent vs development fund and understand where funds are limited life or need to be allocated for specific purposes.

## 5.4 Budget Transparency & Oversight

Elected officials play three roles:

Influence	Scrutinise	Inform & Monitor
<ul style="list-style-type: none"> <li>• feed local priorities into formulation (Jan–Aug) through evidence-based submissions</li> </ul>	<ul style="list-style-type: none"> <li>• debate the Budget Speech and Volumes; seek clarifications in Parliament or Provincial Assembly</li> </ul>	<ul style="list-style-type: none"> <li>• publish local-level allocations to constituents; invite community oversight to ensure funds reach intended projects.</li> </ul>

## FMM 06.6 Public Revenues and Government Borrowing: Why They Matter to You

At first glance, topics like tax revenue or government borrowing and debt might seem distant from an elected member's day-to-day concerns but the flows of money into the government and how the government borrows affect what resources you have for your community, and they also come with responsibilities for oversight.

### 6.1 Understanding Public Revenues

The biggest source is taxes including salary and wages tax, corporate income tax, the Goods and Services Tax (GST), excise taxes, import duties, etc. PNG also has significant revenue from the resources sector (like mining and petroleum taxes/royalties) and non-tax revenues (fees, licenses, state-owned enterprise dividends). At the sub-national level, provinces and local governments have their own revenue sources such as market fees, business licenses, and grants.

All government spending is constrained by how much revenue we have (plus how much we borrow). If revenues dip, budgets get tight and your planned projects might not get funded or might face cuts. Also, improving local revenue collection can directly benefit your area.

Collecting taxes is not just about money, it's about accountability. In practical terms, when citizens pay taxes, they expect services in return and have a right to demand accountability. If people see their taxes being wasted, it erodes trust in government. Conversely, if they see good services, compliance improves. As a local leader, even if you're not directly setting tax rates, you can advocate for responsible use of tax funds and support public awareness of why paying tax is important. For example, you might support outreach that shows "Your GST on goods helps pay for our roads and hospitals."

#### 6.1.1.1 Where Provincial Money Comes From – A Practical Revenue Snapshot

Stream	Who collects?	Provinces
<b>Goods &amp; Services Tax (GST)</b>	Internal Revenue Commission (IRC)	60 % of domestic GST (imports excluded) remitted monthly to each province.
<b>Bookmakers' Tax</b>	IRC	40 % of collections remitted.
<b>Resource Royalties</b>	Project operator to Dept. Petroleum & Energy / Mineral Resources Authority	Statutory formula – usually 2 % of well-head value shared among State, landowners and the host province.

<b>Dividends</b>	Provincial holding companies / trusts	Only a handful of provinces hold equity.
<b>Own-source Revenue</b>	Provincial treasuries & sector agencies	Fees, licences, rents, motor-vehicle registration, road-user charges, business permits, court fines, asset sales.

Focus your revenue-oversight energy on making sure IRC remittances are reconciled monthly and that any local fees legally due are actually collected and receipted.

### *6.1.1.2 Transfers and equalization*

There is a system to share national revenues with provinces/districts and this is administered through the National Economic and Fiscal Commission. These are supposed to ensure every region has a basic amount for services, even if they can't raise much locally.

As an elected member, be aware of the process and formulae so your community is getting your fair share. If your province generates high revenue you might get less in grants; if you generate little, you get more.

Understanding this helps manage expectations and strategies – e.g., if your internal revenue shoots up due to a new project, the equalization grant might drop in future, so plan accordingly.

## **6.2 Government Borrowing and Debt**

When revenues aren't enough to cover all the things the government wants to do, the government can borrow money. Borrowing is usually done by the national government (issuing government bonds, taking loans from international institutions or other countries). Sub-national borrowing in PNG is highly restricted – provinces or districts generally cannot borrow externally on their own (to prevent them from getting into unsustainable debt). Borrowing trickle down in several ways:

- **Development Funding through Loans** - Many big projects (national roads, ports, power stations) are funded by loans from e.g. the Australian Government, Asian Development Bank or World Bank. If one of those projects is in your area, it's borrowing at work. Borrowing can accelerate development – you get the infrastructure now and pay over time. So in that sense, borrowing can benefit your constituents by enabling projects that otherwise wouldn't happen due to lack of upfront funds.

Public Private Partnerships are another form of loans – where the developer or operator finances major development in return to concessions, anticipated user pays (such as tariffs) or through some other revenue sharing.

Money borrowed must be paid back with interest. Each year, the government must allocate a portion of the budget to debt service (repaying loans). If debt gets too high, these payments become very large, eating up funds that could have gone to services.

Ideally, governments borrow for capital investments (things that have long-term benefits like infrastructure), not for day-to-day operating costs. Debt financing is neither good nor bad – it is simply a tool for achieving the budget. Use debt wisely. Encourage that approach in policy discussions.

A province or district can borrow but requires Treasurer approval under PFMA. Be cautious with any idea of borrowing – ensure it's permitted and truly affordable. You might face scenarios where contractors extend credit (like continue work while payment is delayed – that's a form of implicit borrowing). Avoid accumulating such “arrears” – it can snowball (another word) and cripple your future budgets.

Even though Parliament mostly handles scrutiny of national debt, you can be knowledgeable: know how much debt PNG has. National fiscal issues should also be discussed at subnational debates, for example, if the national budget is tight due to debt, maybe the province needs to prioritise maintenance of existing assets rather than expecting new large capital injections.

Borrowed money is not “free” money – it's future taxpayers' money. Insist that loan-funded projects are transparent and well-managed, otherwise you're burdening your children's generation. When a new loan-funded project comes to your district (say, a donor funds a new college with a soft loan), ensure the community knows it's funded by a loan (often people think it's a grant).

All governments need sustainable sources of funding for social programs and development, either through taxes or prudent borrowing. As an elected official, support efforts to broaden and secure revenue (like encouraging compliance with taxes and supporting transparent budget policies), and be vigilant about how borrowing is used.

## **FMM 06.7 Using Financial Statements and Reports to Make Informed Decisions**

Financial statements and reports are the instruments and maps that tell you where you stand and guide your decisions. In this section, we demystify these reports and show how you can use them as a decision-maker.

### **7.1 Why Financial Reports Matter**

Financial reports are essentially the scorecard of financial performance. They answer questions like: Did we spend as planned? Did we collect the revenues we expected? Do we owe money or are bills unpaid? Are we financially healthy?

#### **7.1.1 Performance report (or interim reports)**

These can be monthly or quarterly budget execution reports, and a mid-year budget review is common. They compare actual spending and revenue up to that point against the budget targets and warrants issued. Are we on track or do we need to adjust strategy? For instance, by Q2 you might find the province has only spent 30% of the development budget due to procurement delays – meaning you need to press departments to accelerate projects in the remaining half. Or you might find internally raised revenue is higher than expected, giving you room to fund an extra priority, or lower than expected, implying a need to cut non-essentials or seek funds.

Good interim reporting can identify trends in time for you to act. As an official, make sure you receive and review interim reports. If they're not provided, ask for them. And when you get them, don't just file it – discuss with your administrators (and Board for Districts) what the numbers mean.

#### **7.1.2 Annual Financial Statements (End-of-Year Reports)**

At the end of the fiscal year, the accounts are closed and statements are produced. The IFMS has a set of template statements to complete annual reports and Volume 4 of the Finance Management Manual provides the technical details on what these statements should contain.

There is a significant level of non-compliance of submission of annual financial statements by sub-national agencies

Importantly, these annual statements are audited by the Auditor-General. An audited report gives some assurance that the figures are accurate and highlights any issues (like unsupported spending or breaches of rules).

### **7.1.3 How to Read the Reports**

#### *7.1.3.1 Budget vs Actual Comparison (for both revenues and expenditures)*

Most interim and final reports will show a column of what was Budgeted and what was Actual, and the Variance (the difference). The focus of this report is on major variances.

If Actual spending is far below Budget in an important area, it means underperformance (the public didn't get what was planned) – maybe due to delays or capacity issues. As a leader, you'll want to remove bottlenecks or in future budget more realistically.

If Actual spending is above Budget (a.k.a. overrun), that's a problem – either money was reallocated from elsewhere, or there's a deficit. Ask why: was it an emergency expense? Or overspending due to poor controls? Persistent overruns might violate PFMA and will draw audit criticism. You may need to institute stricter oversight or adjust future budgets to be more accurate.

#### *7.1.3.2 Fund Balance / Cash position*

The cash balance is very important but it is important that you also consider funds available, that is, what contracts or unpaid bills are still yet to be paid and cheques that are not yet cashed. If your province had K500,000 unspent and carried over, that's good to know (maybe you can use it next year, or it might be tied to something). Conversely, if you have liabilities – say K300,000 in unpaid invoices – that is effectively a negative to carry forward (you owe that money). A healthy position is to pay off obligations and not accumulate arrears. Check the notes in statements for things like outstanding payables or receivables (money owed to the government). E.g., if a report says businesses owe K100,000 in unpaid licenses, that's something to chase up.

#### *7.1.3.3 Audit Findings*

When the Auditor-General reviews the financials, pay attention to their report. They might say “accounts present fairly” (a clean audit) or they might highlight issues: e.g., “K1 million in procurement lacked proper quotations” or “cash advances were not acquitted.” These are serious because they signal control weaknesses or potential fraud. If the AG cannot even give an opinion

("disclaimed audit"), that means the records are so poor they can't be trusted which is a sign of major problems. It is part of your duty to work with administrators to rectify audit issues.

#### *7.1.3.4 Performance Indicators*

Some reports include non-financial info – like how many health clinics were built versus planned, etc. Use this alongside financial data to judge effectiveness. If an annual report shows 90% of the budget spent but only 50% of projects completed, money wasn't used efficiently. Probe why.

#### *7.1.3.5 During the year adjustments*

If quarterly review or project reports show trends, you might need to reallocate funds mid-year (with proper approvals) to where they are needed most. For example, if a disaster hits and you need to divert some funds to relief, the mid-year review could identify low-priority spends to cut or savings realized from slower projects to redirect. Or if revenue is falling short, decide early to cut back on travel, vehicle purchases, or other controllable expenses so essential services aren't hit later.

#### *7.1.3.6 Next year's budget planning*

When crafting the next budget, use the latest financial results. Did one program consistently underspend? Maybe its budget can be trimmed and money shifted to a busier program. Did local revenue exceed target? You might justify funding a new initiative or, conversely, if it underperformed, you might plan more conservatively. Essentially, the financial statements are feedback that should inform the next cycle – this creates continuous improvement.

In meetings, dedicate time to discuss the quarterly and annual financial reports. Some elected bodies form an audit committee or budget and finance committee to dive deep and then report to the full body – if you have one, consider participating. Ask the finance officials to present in plain language: What do the numbers mean? What's the trend? Don't be embarrassed to ask for clarity – financial professionals sometimes use jargon, but it's their job to translate that for decision-makers. A well-presented report should be understandable. If it's not, probe as complexity might mask issues.

Where possible, consider that these financial reports (especially the annual ones) should be made public to your citizens. When people see the numbers – income and expenditure – it helps build trust and they might even provide feedback or spot issues (extra eyes). For example, if the public knows K200k was budgeted for a new market but it's not built by year-end, they will ask where the money went – and rightly so.

Publishing budgets and reports is encouraged, we do not provide enough transparency on our financial performance to our community.

We hope this guide has made these concepts clearer and shown that financial management isn't a far-away technical domain – it's part and parcel of good governance that you, as a leader in Papua New Guinea, can excel in. Together, let's strengthen public financial management across all levels of government, so that PNG's development vision can be achieved with honesty and excellence.

Stay Curious and Informed - PFM can get complex, but you now have a strong foundation. Continue to ask questions – of your finance staff, of national agencies, of fellow leaders.

Work as a Team - You are part of a broader system. Collaborate with management teams, financial managers, and internal auditors. They are professionals who can help implement the good practices. Together, you can strengthen financial management.

Uphold Integrity - Nothing will undermine service delivery more than corruption or negligence. By personally modelling integrity and holding others accountable, you create an environment where public funds are used for public good.

Keep the People at the Centre - Always loop back to how financial decisions affect the people who elected you. A budget number isn't just a number – it might be new textbooks for schools, or medicine for clinics, or a generator for the water supply. Likewise, a financial report shortfall isn't abstract – it might mean a village didn't get its planned aid post. This perspective will keep you grounded and motivated to ensure every Kina works hard for the community.

# Legal Obligations For Suppliers



## Checklist: Supplier obligations for all purchase orders

Note: Purchase Orders above K100,000 require a contract or agreement.

1



### Registration

Properly registered business with Internal Revenue Commission and Investment Promotion Authority business registrations.



2



### Obligations

Compliance with all employer obligations.



3



### Contract and or Agreement

Has a contract or signed agreement for the goods, works or services being provided.



Received a request to provide goods, services or works for a Government agency?

1. Check that the person who has entered into this agreement is legally delegated to enter into this agreement. General rule only Department Head of a Government agency can enter into a contract. Generally, an Elected Official cannot enter into a contract or financial commitment for a Government agency.
2. If the total value of the expected supply is more than K100,000 have a written agreement in place. No claim against the State will be enforceable if there is no documentary evidence.
3. If the value of the supply is more than K1 Million you must have an Authority to Pre-Commit or the claim will be void.

< K50,000  
Not Required

K50,001 - K100,000  
Not required, but quote approved

K100,001 - K1,000,000  
Required: Contract/Agreement

> K1,000,000  
Must be tendered through open bidding using procurement committee

4



### Goods Receipt

When these goods, works or services were provided, you have evidence that confirms that it was delivered (delivery receipt signed by a government officer).



5



### Invoice

You have submitted a proper tax invoice for payment and this payment.



#### Section 45 of the Public Finances Management Act

A claim for the price arising from the sale of property or stores or for the supply of goods or services to the State shall not be enforceable, through the courts or otherwise, unless the seller of the property or stores or the supplier of the goods or services produces:

- A) A properly authorised Integrated Local Purchase Order or Claim (ILPOC); or
- B) An Authority to Pre-commit Expenditure, relating to the property or stores or goods or services, the subject of the claim, to the full amount of the claim.

No claim against the state is legally enforceable for more than K1 Million if there was no properly executed contract for the goods, services or work and an authority to pre-commit was not issued to authorise the execution of the contract.

# Procurement Compliance



## PROCUREMENT PROCESS

## FINANCIAL MANAGEMENT PROCESS

Establish the need for goods, works or services

Establish annual budget and work plan

Develop detailed requirements

**Contract splitting is not allowed.**

Contract splitting is not allowed. Agencies shall not issue two or more contracts to the same supplier or contractor, or use multiple suppliers or contractors for the same goods, works or services in order to reduce contract values to under the threshold level.

Required to proceed

### Procurement value

< K50,000

K50,001 - K100,000

K100,001 - K1,000,000

> K1,000,000

**Before engaging your supplier**

1. Have you checked their status with IPA and IRC?
2. Does the supplier have a minimum of 3 years industry experience and have demonstrated the capacity to deliver on the goods works and services?
3. Are they a capable National Supplier if under K10 Million?

Required to proceed

**Must be tendered through open bidding using procurement committee by the National Procurement Commission**

### Required quotes

1 Written Quote

3 Written Quotes (min)

3 Evaluated Quotes (min)  
Required: Contract/Agreement

#### Note

- A cheque of more than K100,000 will not clear unless:
1. Secretary Finance clearance of the cheque
  2. Copies of supporting documentation of the legality of the payment
  3. If a procurement, evidence that proper procurement occurred
  4. Copies of completed FF3 and FF4
  5. Register of correct appropriation code
  6. Copy of the Contract or Agreement
  7. Copy of the Authority to Pre-Commit (for more than K500,000)
  8. If a payment from a trust account, copy of the trust deed

### Select Supplier

**Raise requisition form (FF3) and confirm funds availability**  
Ref: FI part 9 Attachment 1

Required to proceed  
S.32 Officer Signature

**Generate an ILPOC**  
Ref: FI Part 9 Attachment 1

Required to proceed  
Financial Delegate Signature

Execute contract by providing ILPOC to supplier

Supplier delivers

Confirm supplier has carried out works or supplied good or services

Supplier generates invoice

Claims examination process  
Ref: FI Part 9 Attachment 1

Produce cheque and provide to supplier

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Elements of this manual will be updated regularly. To access the most up to date version of the Finance Management Manual visit the Department of Finance website [www.finance.gov.pg](http://www.finance.gov.pg). and for Department of Treasury references including Volume 7 Budget Manual visit [www.treasury.gov.pg](http://www.treasury.gov.pg)