



**DEPARTMENT OF FINANCE**  
**Office of the Secretary**

FINANCE INSTRUCTION 04/2019

12<sup>th</sup> APRIL 2019

**SUBJECT: FINANCE INSTRUCTION FOR THE IMPLEMENTATION OF THE  
PROVINCIAL, DISTRICT, LOCAL LEVEL GOVERNMENT & WARD  
SERVICE IMPROVEMENT PROGRAM**

## **1.0 INTRODUCTION**

### **1.1 Authority**

This Finance Instruction (hereafter FI), is issued under Section 117 of the *Public Finances (Management) Act*, as amended (PFMA).

### **1.2 Legality & Enforcement**

Non-compliance with this and other FIs issued under the PFMA, will invoke appropriate sanctions and/or penalties prescribed under the Act and/or under other relevant laws.

### **1.3 Precedence**

Finance Instruction No. 18 of 2018 is revoked.

## **2.0 PURPOSE**

### **2.1 SIP Regulation & Funds Usage**

This Instruction and SIP Administrative Guidelines are designed to ensure the control and effective usage of Provincial, District, Local-level and Ward Service Improvement Programs (SIP).

## **3.0 BACKGROUND**

### **3.1 NEC Decision No. 240/2018**

NEC decision No 240/2018 was made on 16th August 2018 by the National Executive Council:

- (a) noted the proposal to improve the current processes of SIP disbursements to empower State agencies responsible for compliance monitoring to be effective in ensuring impact developments in rural areas;

- (b) approved the Department of Implementation and Rural Development (DIRD) as a “one – stop –shop” for ease of SIP processing, monitoring of implementation, performance audit, and reporting of developments by the 111 sub-national administrations (Provinces and Districts);
- (c) directed the Department of Treasury ensure that there was funding appropriated for the operation of DIRD in the 2019 National Budget Bills for the consideration of Parliament;
- (d) approved to rescind certain parts of NEC Decision No. 414/2013 for SIP Sectoral Funds Allocations having higher flexibility for the 111 administrations to determine expenditures based on their respective priorities as it failed generally to achieve the anticipated objectives;
- (e) approved to re-endorse NEC Decision No. NG102/2012 that provided prominence to the five (5) key sectors as it consistent with the O’Neill/Able Government priorities adapted under Alotau Accord II and will ensure all key feature equally in expending SIP funds;
- (f) directed that the Department of Treasury prioritize SIP funding every fiscal year as it supports the five (5) Key Sectors in line with Alotau Accord II and to be designated as follows:

Infrastructure Sector	-	30%
Education Sector	-	20%
Health Sector	-	20%
Law and Order Sector	-	10%
Economic Sector	-	10%
Administration Sector	-	10%

DIRD to use 1% of the Administration Sector 10% for monitoring & performance audit. For clarity, this means that DIRD is to be able to use 1% of the Administration Sector 10% for monitoring & performance audit, or put in Kina, for every K1,000,000 used in the Administration Sector, DIRD is able to use K10,000. The interdepartmental government agencies (DIRD, Department of Treasury, Department of Provincial and Local-level Government Affairs and Department of Finance) Audit Cells will be routinely deployed to conduct project audits and/or inspections including evaluations of implementation progress as determined by DIRD in consultation with Program Managers, Provincial and District Administrators.

**Note: Community Development Sector has been removed from the rest of the sectors above.**

- (g) directed the Department of Finance to revise the current SIP Administrative Guidelines and the Financial Instructions to incorporate these amendments in the guidelines;
- (h) directed DIRD and Department of Finance to disseminate both the Administrative Guidelines and the Financial Instructions to all relevant stakeholders to hasten the SIP implementation from 2018 onwards; and
- (i) approved to rescind all previous NEC directions to the abolishment of DIRD in the light of this decision.

### **3.2 Further Breakdown of Administration Allocation**

The Administration Component remains at not more than 10% of the total SIP as follows (after the deduction of the 1% to be used by DIRD for monitoring and audit inspections):

- 1/3 General Administration (support to JPP&BPC/JDP&BPC and Project Management Teams (PMTs);
- 1/3 Electoral (MP) Office Operational support; and
- 1/3 Project Mobilisation costs.

DIRD will use of the 1% of the Administration Component for monitoring and audit inspections. These funds will be accessed through national budget appropriation to DIRD and shall not be held in SIP Trust Accounts.

### **3.3 Pre –requisite for release of SIP Funds**

Pre-requisite for release of SIP funds by DIRD is subject to the following requirements:

- (i) Itemized Annual Provincial, District and LLG SIP Budget Plan;
- (ii) Project Documentation of all SIP Projects above K5,000; and
- (iii) JPP&BPC, JDP&BPC and LLGA Meeting Minutes and Resolutions.

## **4.0 INCORPORATION OF GUIDELINES & OTHER INSTRUMENTS**

### **4.1 Provincial, District, Local-level Governments and Ward Service Improvement Programs Administrative Guidelines**

The Provincial, District, Local-level Governments and Ward Service Improvement Programs Administrative Guidelines, which have been jointly endorsed by the Secretary's Finance and DIRD, issued by the Chief Secretary to Government and sanctioned through NEC Decision NG 240/2018 through its Special Meeting No. 20/2018 complement this FI. All persons shall comply with the terms, conditions, requirements and instructions of this FI and the SIP Guidelines.

The Provincial and District Service Improvement Program funds shall be managed and accounted for by Provinces and Districts in the Government finance system, PGAS or IFMS whichever is in use, as Trust Accounts in accordance with the Trust Instrument for Service Improvement Programs (SIP) Trust Account approved by the Minister for Finance. Appropriations and expenditure in the trust accounts shall be identifiable by Province/District, Sector and Project.

The Local-Level Government and Ward Service Improvement Program funds shall be managed and accounted for by Provinces and Districts as SIP appropriations within the Provincial and Local-level Government annual budgets in the Government Finance System, PGAS or IFMS, whichever is in use.

## **5.0 BANK ACCOUNTS**

### **5.1 Provincial Service Improvement Program Operating Account**

Provincial Service Improvement Program Operating Accounts (PSIPOA) shall be opened by each Province in compliance with the PFMA to hold Provincial Service Improvement Program grants and make expenditure payments.

The signatories for the Provincial Service Improvement Program Operating Accounts shall be:

- (a) Provincial Administrator and the Deputy Provincial Administrator, as the alternate; and
- (b) Provincial Finance Manager and the Provincial Accountant, as the alternate.

### **5.2 District Service Improvement Program Operating Account**

District Service Improvement Program Operating Accounts (DSIPOA) shall be opened by each District in compliance with the PFMA to hold District Service Improvement Program grants and make expenditure payments.

The signatories for the District Service Improvement Program Operating Accounts shall be:

- (a) Chief Executive Officer of the District Development Authority and the Deputy Chief Executive Officer of the District Development Authority, as the alternate; and
- (b) District Finance Manager and the District Accountant, as the alternate.

### **5.3 Local level Government Operating Account**

The existing Local level Government Operating Account (LLGOA) shall hold Local-level Government and LLGSIP and Ward SIP grants and make expenditure payments. Appropriations must be created in the PGAS or IFMS for the SIP funds allocated to respective LLGs and Wards in the districts.

The signatories for the Local level Government Operating Account shall be:

- (a) Chief Executive Officer of the District Development Authority and the Local Level Government Manager, as the alternate; and
- (b) District Finance Manager and the District Accountant, as the alternate.

## **6.0 RELEASE OF FUNDS**

### **6.1 Quarterly Warrants**

Total PSIP, DSIP, LLGSIP and WardSIP funding shall be controlled centrally through Warrant Authorities based on cash-flows and availability of cash-funds by Treasury and Finance Departments.

Related cash disbursements shall be based on Quarterly Warrants and/or in accordance with Government directions on the matter.

DIRD will authorise the dispersal of SIP funds under PIP to respective programs to provinces and districts as per the NEC Decision No.240/2018. To distinguish between DIRD's oversight responsibilities and expenditure functions in a practical way, and ensure uniformity of expenditure approvals that are compliant with the requirements of Section 5 of the PFMA, the Department of Finance shall, on receipt of expenditure authorisation (FF3) from DIRD, process payments to the Provinces and Districts in IFMS.

## **7.0 PGAS DATABASE FOR SERVICE IMPROVEMENT PROGRAM**

### **7.1 IFMS or PGAS Database**

- (a) PSIP/DSIP. Separate general ledger and bank accounts must be configured in IFMS or PGAS to account for SIP funds for the respective PSIP and DSIP accounts. A standardized Chart of Accounts (CoA) shall be developed and used. If system administrators require guidance on creating the accounts, they must contact the IFMS or PGAS Support Team within the Department of Finance.
- (b) LLG and Ward SIP. Separate budget appropriations must be allocated in the LLG annual budgets for the respective SIP accounts. The LLG/Ward SIP funds shall be managed through the LLG operating bank accounts.

### **7.2 Bank Reconciliations**

All Provincial and District Finance Managers shall compile the Bank Reconciliation Report for SIP Operating Accounts and furnish to the First Assistant Secretary, Financial Reporting and Compliance Division (FRCD) of the Department of Finance within 14 days after end of each month.

Also, the copies of the bank statements should be made available to DIRD officers upon request for purposes of reconciling transactions against the cash book and the bank statement for confirmation.

## **8.0 PROCUREMENT**

### **8.1 Procurement Process**

All procurements shall be carried out in accordance with the National Procurement Act (NPA) 2018, the regulations, guidelines and instructions issues under NPA.

### **8.2 Procurement Limits**

Any procurement in excess of K500,000 is within the sole jurisdiction of the National Procurement Commission (including its provincial and district committees).

### **8.3 Authority to Pre – Commit**

An Authority to Pre-Commit (APC) Expenditure is required for proposed expenditure of K500,000 and above. Contracts are null and void without the required APC.

### **8.4 Lodgement of Project and Contract Documents with the Department of Implementation and Rural Development**

A copy of all signed contracts irrespective of value (including delivery schedules and the billing or claims schedule) shall be furnished by the Provincial Administrator or CEO DDA where appropriate, to the Department of Implementation and Rural Development (DIRD), within one (1) week of the signing of the agreement.

## **9.0 SIP FISCAL MANAGEMENT**

### **9.1 PFMA Applies**

The PFMA applies to all SIP funding which shall be controlled centrally through Warrant Authorities based on cash-flows and availability of cash-funds by Treasury and Finance Departments.

### **9.2 Recording Warrants Received**

Information on released SIP funds shall be kept by the relevant Finance Office (Treasury) in the Province or District under the different sectors/projects of the program as depicted, reflected or displayed by the allocations and Chart of Accounts in the IFMS or PGAS databases.

## **10.0 SECTION 32 OFFICERS**

### **10.1 Section 32 Approvals**

All claims for processing payment from SIP funds must be approved by an authorized PFMA Section 32 delegate, appropriately certified and accompanied with relevant supporting documents.

### **10.2 Section 32 Officers**

**10.2.1** The Section 32 officers for the SIP Operating Accounts are as follows:

- (a) DSIP Projects less than K500,000 – Chief Executive Officer of the District Development Authority;
- (b) PSIP Projects less than K500,000 – Provincial Administrator;
- (c) DSIP and PSIP Projects between K500,000 and K5,000,000 – Provincial Administrator.

**10.2.2** The Section 32 officers for the LLG and Ward Operating Accounts are as follows:

- (a) SIP Projects less than K500,000 – District Finance Manager;
- (b) SIP Projects between K500,000 and K5,000,000 – Provincial Finance Manager.

**10.2.3** For all SIP projects with a value greater than K5,000,000 the Section 32 Officer is the Secretary, Department of Finance.

## **11.0 PROCEDURE FOR CLAIM AND PAYMENT**

### **11.1 Payments Generally**

All payments out of SIP funds shall comply with the SIP guidelines; this Finance Instruction and other requirements of the PFMA where applicable. All PSIP and DSIP payments must be authorized via a DIRD Form 11, PSIP/DSIP Release Form (copy attached).

### **11.2 Acceptance of Claims**

Claims shall be accepted only upon certification by the Provincial Works Unit that the deliverables in question have been made and received as per the terms and conditions of contract and schedules of payments/billings as provided in the Service or Supply Contract. Advance or forward payments shall not be made.

### **11.3 Verification and Examination**

All claims for amounts between K5,000 and K500,000 shall be endorsed by the Project Manager in the Province or District prior to claims examination and certification by Provincial and District Finance Officers and approval for payment by the responsible Section 32 Officers.

### **11.4 IFMS & PGAS Processing and Recording**

The Provincial or District Finance Manager shall make all authorised payments to contractors and furnish payment reports to the Joint Provincial/District Planning and Budget Priority Committee, Provincial Administrator or Chief Executive Officer of the District Development Authority, whichever is applicable.

### **11.5 Keeping of Accounts**

The Provincial and District Finance Managers shall maintain proper accounts and records of SIP financial transactions and assets in accordance with the PFMA and the Organic Law on Provincial and Local Level Governments, using the appropriate IFMS or PGAS system.

### **11.6 Cheque Usage**

Cheque Usage Reports and DIRD Form 11 PSIP/DSIP Release Form shall be provided regularly to Banks to support the cheque clearance processes by Provincial and District Finance Managers.

All SIP cheques and other payments **MUST** be system generated from the IFMS or PGAS systems, whichever is in use. Manual cheque books **shall not** be used in the disbursements of funds and/or payments.

## **12.0 TREATMENT OF UNSPENT FUNDS**

### **12.1 Committed Funds at Year-end**

Subject to justification and approval by DIRD in consultation with Finance Department, committed and earmarked project funds not yet used may be rolled over in accounts designated for the purpose for ensuing period for uninterrupted completion of the related projects. Such rollovers shall be only for one succeeding fiscal/financial year.

### **12.2 Uncommitted Funds at Year-end**

Uncommitted funds not earmarked or unlikely to be earmarked to projects or activities, are thus surpluses, will be forfeited to the Consolidated Revenue Fund. It is also important to note that these funds will not be diverted to other projects. This position is to ensure the integrity of planning, budgeting, responsible usage of funds and related accounting and reports after the Appropriation lapses and the Financial Year ends.

### 13.0 OFFENCES

Pursuant to Section 106 of the PFMA a person who, in whole or part, omits or fails to comply with a duty, obligation or requirement of this FI is guilty of an offence. All offences are offences of strict liability. Penalties that can be imposed include:

- (a) Section 106A(4)(a), in the case of an offence by an individual person, imprisonment for a period not exceeding 15 years and a fine not exceeding K2 million.
- (b) Section 106A(4)(b), in the case of an offence by a person other than an individual person, a fine not exceeding K50 million.
- (c) Section 106B(1), a person, whether corporate or unincorporated, who has been subject to a surcharge or is convicted of an offence under the PFMA is permanently barred from employment with or from contracting to a public or statutory body.
- (d) Section 106B(2), a person who has any contractual relationship with any public or statutory body is permanently barred from employing or contracting with any person referred to in sub-section 106B(1).
- (e) Section 106C(1), the Finance Minister may suspend without pay, for whatever period he thinks fits, a member of a public or statutory body if the Finance Minister is of the opinion that it is in the best interests of the financial administration of that public or statutory body.
- (i) Contracts entered or purported to be entered into by the statutory body or public body that is inconsistent with procurement thresholds as stipulated in National Procurement Act (NPA) is void from the moment of execution.

### 14.0 EFFECTIVE DATE OF THIS FI

This Finance Instruction is effective as of the date of signing by the Secretary.

### 15.0 HELP DESK

Should you require further information the following officers should be contacted:

**(a) Department of Implementation and Rural Development**

Deputy Secretary, Program Implementation Wing, covering submission of plans and proposals and reporting on projects (Phone: 323 4712/300 8524).

FAS Policy, Planning & Budgeting Division (Phone: 300 8500).

**(b) Department of Works -**

First Assistant Secretary - Policy and Planning Coordination and Donor Programs (Phone: 325 1253)

**(c) Department of National Planning and Monitoring**

Director - Provincial and District Development Coordination (Phone: 328 8318)

**(d) Department of Treasury -Budget Issues**



First Assistant Secretary - Budgets Division (Phone: 312 8736)

**(e) Department of Finance**

First Assistant Secretary, Financial Reporting and Compliance Division  
(Phone: 328 8605).



**DR KEN NGANGAN PHD CMA CPA**  
**Secretary for Finance**

Date: 25 / 04 / 2019

***Attachment:***

*DIRD Form 11, PSIP/DSIP Release Form*