CHAPTER 9

FINANCIAL CONTROL

1. The principle that parliament should have ultimate control over the raising and expenditure of government funds follows logically from the Committee's recommendation Chapter 7, "The Executive", that the members of the National Executive Council should be collectively responsible to the National Parliament. "Parliamentary Control of the Purse" provides the legislature with one of its most important checks upon the actions and intentions of the executive. Parliamentary control over public monies secures for the elected representatives of the people the final say over the economic aspects of the government's development plans.

Ultimate Parliamentary Authority

2. The Committee recognises that the National Parliament cannot exercise detailed control over each individual revenue-raising measure or every item of government expenditure. The executive arm of the government requires some flexibility in its negotiations with potential lenders or aid givers. It must be capable of responding quickly and effectively to changes in the international economy or in economic conditions in Papua New Guinea, so as to safeguard the situations of difficulty or urgency as they arise.

3. Parliament may do no more than set the broad limits within which loans may be negotiated, taxes imposed, aid received, and government funds spent. It may establish procedures to ensure the honesty of those who handle government funds, and to hold them accountable for their actions. The National Parliament should, we believe, scrutinise very carefully any proposal to delegate the power to levy or alter revenue-raising measures, to authorise loans, or to spend public monies, to another body. It should be wise to limit the National Parliament
constitutionally in respect of these matters. Parliament cannot exercise detailed control over every aspect of the management of public funds. In a system of responsible government, the parliament entrusts certain responsibilities to the executive, while the executive, in turn, must display respect for the parliament. Our recommendations are designed to ensure that ultimate authority over all aspects of public finance shall be vested in the National Parliament.

**Revenue raising**

4. Papua New Guinea obtains public monies from three main sources:

- domestic taxation
- domestic ... loans
- foreign aid

Chapter 2, "National Goals and Directive Principles", we have attempted to link the procedures set out in this Chapter for the raising and expenditure of government funds with the ... for which we believe these procedures should be employed. We have also tried to specify there the objectives for which public monies should, we believe, be used. But, in this Chapter, we are not directly concerned with the uses to which public monies might be put, but with the procedures through which they are raised, allocated, and spent.

5. All taxes, rates, duties, (including excises), levies or impositions imposed by the government should be set according to law. This recommendation does not prevent the parliament from empowering the executive to set the precise levels of certain taxes by regulation. It therefore allows for some flexibility in the setting of particular taxes by the government (within limits and according to procedures set by the National Parliament), without weakening parliament's ultimate control over the raising of taxes.

6. Similarly, the Committee recognises that the National Parliament cannot approve the precise details of every government loan. The executive must be able to seek money where it is available on reasonable terms. But the National Parliament must be able to keep at least general control over the country's indebtedness. It must be able to prevent the raising of unnecessary loans, to determine the framework within which loans are negotiated, and to guard against Papua New Guinea becoming unduly dependent upon particular lenders.

**Consolidated Fund**

7. The provision that all government funds must be paid into a Consolidated Fund, and that expenditure from it must be made according to law, ensures that
the National Parliament has ultimate control over all revenue raised, including foreign aid. The establishment of a Consolidated Fund provides a useful device for keeping regular account of the country's overall financial situation.

8. There may be occasions on which the government wishes to set aside certain funds for special purposes, and to keep them apart from the Consolidated Fund established in the Constitution. The Committee's recommendation does not prevent this, but it requires that this may be done only with the approval of the National Parliament, which may require that regular reports be made to it on transactions involving such funds.

9. In Chapter 14, "General", we have provided that constitutional office-holders should be paid direct from the Consolidated Fund.

Executive Initiative

10. The Committee recognises that the day-to-day management of the national economy must be in the hands of the National Executive Council. The National Executive Council must be able to raise and spend government funds according to law. Ministers should be able to bring their financial requirements before parliament. Parliament must be able to scrutinise these proposals carefully and in depth. But the detailed management of the economy should remain the responsibility of the executive. The government should be able to introduce the programmes upon which it was elected.

11. If the principle that parliament should have ultimate control over the raising and expenditure of public monies is to have meaning, then the National Parliament needs to have the power to examine the budget as a whole, and to reject it in whole or in part. Parliament should, we believe, have the power to cut particular items of expenditure or particular taxes proposed by the executive. Members must be able to move and to pass motions and amendments in protest against particular provisions of the government's budgetary proposals. But the ultimate task of management, of raising, allocating, re-allocating and then spending government funds, remains an executive responsibility.

Budget and Accounts

12. The presentation of the annual budget and statement of account to the legislature provides a most important opportunity for the audited results of one year's government activity to be related to estimates for the following year, and for both of these to be examined against the government's long range economic plans. It provides a most useful occasion for parliament to review progress being made towards the attainment of national objectives. The Committee
therefore recommends that the present system whereby the Minister responsible for finance submits an annual budget to the parliament be continued, and that parliament be given the opportunity to ..... and expenditure of government funds during the previous year. The Permanent Parliamentary Committee responsible for financial matters should be given adequate opportunity to examine the budget in depth before it is finally approved.

13. At present, the government publishes quarterly statements of government revenue and expenditure. This practice is useful for those engaged in economic and financial management. The Committee recommends that it be continued, but it does not propose that it be required in the Constitution.

14. At present, the annual budget is presented to the parliament almost two months after the commencement of the financial year with which it deals, and funds often do not become available until the third or, sometimes, the fourth month. If a budget is to be a true plan for future expenditure, it should ideally be presented to the National Parliament before or at the beginning of the financial year. The Committee therefore recommends that the timing of the presentation of the budget to the National Parliament, or the dates on which money becomes available from Australia, should be changed so that the budget can be debated before some of the money contained in it has already been spent.

15. As indicated above, the Committee recognises the importance of executive initiative in the presentation of financial proposals to the National Parliament. But, the executive must be open to proposals and reactions from backbench representatives of parliament in relation to both the raising and expenditure of government funds. We therefore recommend that the National Executive Council should consult with the appropriate Permanent Parliamentary Committee before the annual budget is prepared, so that it may take account of a broad range of opinion on budgetary matters. Such consultation would enable a representative group of backbench members of parliament to make their views on budgetary policy known to the government. It would provide an opportunity for the exchange of information and ideas. Short-run programmes might be considered in the light of long-range plans. Changes can be more readily fitted into the overall framework of the budget at this stage than after the budget has been presented.

**Revenue and Expenditure without prior approval**

16. As a rule, public monies should neither be raised nor spent without prior parliamentary approval. There may, however, be occasions when it is simply impossible for the National Parliament to approve estimates of revenue and expenditure before the beginning of a particular financial year. It may be, for
example, that the National Parliament cannot be brought together before the close of a financial year, because an election is in progress, or because of an unforeseen emergency, or for some other reason; or that a meeting of parliament lapses for want of a quorum before the estimates for the first few months of the next financial year can be approved; or that a new government is formed so close to the end of a financial year that it does not have time to prepare its own estimates before the commencement of the next financial year.

17. The Committee believes that the entire work of government should not come to a halt in such circumstances. But it also recommends that a firm limit be set to what the executive can do without parliament's prior approval.

18. We therefore recommend that an amount not exceeding in total one-third of the estimated expenditures for the preceding year should be available to the Minister responsible for finance to draw upon to maintain the normal services of government until parliament can be brought together. The expenditures he authorises should be held against the expenditures that the National Parliament later approves for that year.

19. The inclusion in the Constitution of a provision in line with this recommendation should not be taken to mean that the Committee favours a continuation of the current practice, whereby the government asks the parliament to grant it supply to enable its work to continue during the following financial year until the budget approved by the parliament comes into effect. Indeed, we strongly believe that the government should seek prior parliamentary approval of all revenue raising and expenditure. This provision is intended to deal with circumstances in which the National Executive Council is for some reason unable to obtain such approval.

**Contingency Fund**

20. In the past, the Australian government used to meet any shortfall of funds in Papua New Guinea at the end of the financial year, and provided additional money to meet emergencies. We are pleased to note that the Papua New Guinea government has now set aside funds of its own to meet contingencies. Our recommendation that a Contingency Fund should be established is intended to make constitutional provision for such a fund.

21. The Contingency Fund we propose is intended to meet urgent and unforeseen expenditures. It should not be employed unless no other provision exists for the expenditures required. It should be possible to withdraw funds from it quickly - upon the authorisation of the Minister responsible for finance. But, such withdrawals must be reported to the National Parliament no later than
in the annual statement of government expenditure following each withdrawal. Monies withdrawn from the fund should be replaced as soon as possible.

22. The Contingency Fund we propose should be limited in size: it should be set up and then increased as the government's overall financial position improves, so as not to exceed five percent of the average total government expenditure during the preceding three years.

23. We do not consider that it would be realistic to require that the Contingency Fund should be of a certain size, or that withdrawals from it should be replaced within a specified period. A series of major national difficulties in successive years would make such requirements impossible to meet. But, we do believe that such a fund is necessary; that the money in it should be readily available; that withdrawals should be fully accounted for in the National Parliament; and that funds drawn from the fund should be replaced when possible.

**Auditor-General**

24. Sound and honest financial administration is basic to the development of our country, and to the effectiveness and reputation of its government. Public monies must be raised and spent as the law provides. It is the task of the Auditor-General to investigate whether public monies are properly handled, and to report his findings to the National Parliament at least once a year.

25. The office of Auditor-General should, we believe, be established in the Constitution. It must be independent of outside political control.

26. The Auditor-General should be as independent as possible of all involvements beyond his official duties. He must be able to pursue his lawful investigations without inhibition, and report the results of his inspections and audits directly to the National Parliament.

27. The Auditor-General's main function is to check that the raising and expenditure of government funds takes place in the manner approved by the parliament, and that all transactions involving such funds have been properly accounted for. He should be able to report to the National Parliament when he finds examples of waste and extravagance in the use of public monies. His jurisdiction should extend to all bodies that make use of government funds, including government departments, provincial governments, and all other statutory bodies.
28. It is important that the Auditor-General be supplied with adequate facilities and suitably trained staff to perform his duties effectively. Any suggestion that his functions might be performed by auditors in private practice in Papua New Guinea acting as his agents should, we believe, be rejected. We have recommended above that the position of Auditor-General should be independent of outside direction and control. In Chapter 14, "General", and Chapter 3, "Leadership Code", we have made detailed recommendations designed to secure this independence. It would, therefore, run counter to all that we have said on this subject if a person in private practice in Papua New Guinea were to act as an agent of the Auditor-General. An auditor in private employ or in business on his own account in Papua New Guinea would not be subject to the restrictions which we have recommended (in Chapters 3 and 14) should be placed upon the Auditor-General. Further, the size of the profession in Papua New Guinea makes it all-too-likely that an auditor acting as an agent of the Auditor-General would become privy to information which might place him in a difficult position in relation to the interests of his private clients. The Auditor-General must, therefore, be given adequate staff of his own, and that staff as well as the office of Auditor-General should be filled as soon as possible by citizens with appropriate qualifications. Meanwhile, shortages of suitable staff in Papua New Guinea should be met by recruitment, and, if necessary, secondment, from overseas.

(Italic by Office of the Auditor-General)

Parliamentary Scrutiny of Public Accounts

29. In addition to the Auditor-General, there should, we believe, be a group of parliamentarians outside the ministry charged with the specific responsibility of scrutinizing the administration of government funds. They should receive the reports of the Auditor-General, and examine them in detail. They should be empowered to initiate their own independent enquiries into the administration and expenditure of public monies.

30. The Committee therefore recommends that a permanent Parliamentary Committee with the specific responsibility of reporting to the parliament on the administration of government funds should be established in accordance with the recommendations in Chapter 6, "The Legislature". This committee should be able to examine all government accounts as it sees fit, to call for witnesses and documents, and to recommend changes in the administration of public monies.

31. The Committee is firmly of the opinion that this committee must be provided with staff suitably trained to assist it in its work. Ideally, it would have people trained in accountancy or economics at its disposal, able to carry
out detailed investigations on the committee's behalf. The work of the Auditor-General should also be readily available to the committee. We have already recommended that this committee should be expressly charged with the responsibility of examining the Auditor-General's reports. It should have the power to summon the Auditor-General to give evidence before it, and to call for his papers. However, it is most important, we believe, that the Auditor-General and the Permanent Parliamentary Committee concerned with the scrutiny of public accounts should work together more closely and rather less formally than the preceding recommendations might imply. Their work is very closely related. Co-operation between them is essential, and would, we believe, be mutually reinforcing. We therefore recommend that the Auditor-General should assist the committee in its investigations by being available to brief it as required, and that all of his working papers should be at the committee's disposal.

32. The Permanent Parliamentary Committee whose establishment we have recommended above should have the responsibility of ensuring that the executive is accountable in detail to the legislature for its administration of government funds. It is therefore important that it should be representative of opinion in the National Parliament, and that it should not be open to domination by members of the National Executive Council. We therefore recommend that Ministers should not have the right in the case of this committee to attend meetings and to take part in discussions as they choose. This committee must be free to determine for itself who (including Ministers) may, and who may not, take part in its proceedings. We urge members of the National Parliament to choose a man of independent mind as its chairman.

RECOMMENDATIONS

A. FINANCE AND PARLIAMENT

1. Except as provided in the Constitution, ultimate authority for the raising and expenditure of all public monies shall be vested in the National Parliament.

Taxation and Loans

2. (1) No taxation shall be raised other than as provided in the Constitution or by law.

Note: In this Chapter, "taxation" means taxes, rates, duties, levies or impositions imposed for purposes of public revenue.
(2) No loans shall be raised by the government other than as provided in the Constitution or by law.

Consolidated Fund

3. (1) There shall be a Consolidated Fund into which all revenues received by the government shall be paid, except as otherwise provided in the Constitution or by law.

(2) No expenditure from the Consolidated Fund established under clause (1) may be made other than as provided in the Constitution or by law.

Note: It may be advisable to rename the present Public Account the Consolidated Fund (and to refer to it accordingly as the Consolidated Fund here).

Executive Initiative

4. (1) The National Parliament shall not provide for the raising or expenditure of public monies except on the recommendation of the National Executive Council.

(2) A recommendation made under clause (1) above shall be conveyed by the Minister responsible for finance to the Speaker, who shall announce it to the National Parliament.

(3) The National Parliament may reduce (but it may neither increase nor reallocate) the amount of taxation, loans or appropriations provided for in bills presented to it under clauses (1) and (2) above.

Budget and Accounts

5. (1) The Minister responsible for finance shall submit to the National Parliament for consideration and decision a budget for each financial year.

(2) Consideration should be given to making changes in existing financial arrangements to allow the annual budget to be presented to the National Parliament before or at the beginning of each financial year.
(3) The National Executive Council shall consult the appropriate Permanent Parliamentary Committee before the annual budget is prepared for presentation to the National Parliament.

(4) At the end of each financial year, the Minister responsible for finance shall submit to the National Parliament a statement of government revenue and expenditure.

(5) The present system of publishing quarterly statements of government revenue and expenditure should be continued in order to facilitate economic policy-making.

Revenue and expenditure without prior approval

6. If at the beginning of a financial year, the National Parliament has not approved revenue and expenditure estimates for that year, the Minister responsible for finance may, according to law, authorise the withdrawal from government funds of an amount not exceeding in total one-third of estimated expenditures in the financial year immediately preceding, for expenditures necessary to carry on the services of government until such time as the National Parliament has approved the estimates for that year. Any withdrawal so made shall be a charge against the expenditure approved for that year.

Contingency Fund

7. (1) The National Parliament may authorise the establishment of a Contingency Fund from which monies may be withdrawn by the Minister responsible for finance to provide for urgent and unforeseen expenditure for which no other provision exists.

(2) The Contingency Fund may be set up, and may then be increased from time to time, so that it does not exceed in size five percent of the average annual total government expenditure during the preceding three years.

(3) When an advance is made from the Contingency Fund, a supplementary appropriation must subsequently be submitted to the National Parliament to replace the amount advanced.

B. AUDITOR-GENERAL

8. The office of Auditor-General shall be established in the Constitution.
Qualifications and Appointment

9. (1) The Auditor-General shall have appropriate professional accountancy qualifications and experience.

(2) The Auditor-General shall be appointed by the National Executive Council after consultation with the First Parliamentary Committee and the Public Service Commission.

Note: Provisions for the disqualification from appointment and continuation in office of the Auditor-General, his tenure, removal from office and other conditions of service, are provided for in Chapter 14, "General".

Independence

10. Subject to the Constitution, and to laws made under it, the Auditor-General shall not be subject to the direction or control of any person or authority in the exercise of his powers or the performance of his functions and duties of inspection and audit.

Functions

11. The Auditor-General shall inspect and audit all public accounts.

Jurisdiction

12. The jurisdiction of the Auditor-General shall extend to all bodies and offices established under the Constitution, to government departments, provincial governments, and all other statutory authorities.

Staff and Facilities

13. (1) The Auditor-General shall have adequate finance, facilities and suitably trained staff to perform his functions of inspection and audit.

(2) The Auditor-General shall not employ as his agents any auditors who are employed, or who are in business on their own account, as auditors in Papua New Guinea.

Reports
14. The Auditor-General shall report the results of his inspections and audits at least once a year to the Speaker, who shall table the report in the National Parliament not later than the first meeting of the parliament after he has received the report.

C. PARLIAMENTARY SCRUTINY OF PUBLIC ACCOUNTS

15. (1) There shall be a Permanent Parliamentary Committee, established in accordance with the recommendations contained in Chapter 6, "The Legislature", and additional to the Permanent Parliamentary Committees specifically provided for in that Chapter, which shall examine public accounts and reports of the Auditor-General, and report to the National Parliament.

(2) The committee established under clause (1) above shall be provided with adequate staff with suitable qualifications in accountancy or economics to enable it to carry out its work effectively.

(3) The committee established under clause (1) above shall have the powers and privileges recommended for Permanent Parliamentary Committees in Chapter 6, "The Legislature", except that Ministers shall not take part in its proceedings unless they are asked, summoned or granted permission by the committee to do so.

(4) The Auditor-General shall brief and at its request, generally provide assistance to, the Permanent Parliamentary Committee concerned with the scrutiny of public accounts, and his papers and records shall be made available to the committee.