

**FOR  
AGENDA**

SM/00/232

October 12, 2000

To: Members of the Executive Board

From: The Secretary

Subject: **Papua New Guinea—Report on Observance of Standards and Codes—  
Fiscal Transparency Module**

The attached report on the observance of standards and codes for Papua New Guinea on fiscal transparency has been prepared in the context of the 2000 Article IV consultation discussions with Papua New Guinea and the first review under the Stand-By Arrangement (EBS/00/201, 10/2/00), which is tentatively scheduled for discussion tomorrow, Friday, October 13, 2000.

It is expected that following the Board discussion, this report will be published on the Fund's external website.

Mr. Allan (ext. 38542) and Ms. Roehler (ext. 35457) are available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)

Other Distribution:  
Department Heads



INTERNATIONAL MONETARY FUND

PAPUA NEW GUINEA

**Report on the Observance of Standards and Codes (ROSC)  
Fiscal Transparency Module**

Prepared by the Fiscal Affairs Department

Approved by R. Anthony Elson and Peter S. Heller

October 11, 2000

**EXECUTIVE SUMMARY**

Papua New Guinea has a generally transparent framework for the conduct of fiscal policy. However, a lack of information on general government operations and noncompliance with legal reporting and fiscal management requirements have become major problems in recent years.

There is a generally sound legal framework for budget preparation, taxation, expenditure control, reporting and auditing. The central government budget is comprehensive and is formulated within a medium term macroeconomic framework. Fiscal accounts are audited by the auditor-general and the judiciary provides an effective check on some of the fiscal actions by government and parliament. However, administrative and parliamentary responses to fiscal noncompliance and audit reports have become ineffective and action is required to revitalize basic fiscal reporting and expenditure control mechanisms.

The government is aware of these weaknesses and is preparing to address them. The staff has given particular emphasis to strengthening watchdog agencies (parliamentary accounts committee, auditor-general, ombudsman), expanding information in the annual budget and improving the timeliness and comprehensiveness of periodic budgetary information provided to the public, strengthening budget execution by improving the internal control environment, enhancing monitoring of general government especially of the provinces, and identifying and reporting quasi-fiscal activities of public sector entities.

Contents	Page
I. Introduction .....	3
II. Description of Practice.....	3
A. Clarity of Roles and Responsibilities.....	3
B. Public Availability of Information.....	6
C. Open Budget Preparation, Execution, and Reporting .....	8
D. Independent Assurances of Integrity .....	11
III. IMF Staff Commentary.....	12

## I. INTRODUCTION

1. This report provides an assessment of fiscal transparency practices in Papua New Guinea against the requirements of the IMF *Code of Good Practices on Fiscal Transparency—Declaration on Principles*. The authorities have completed the fiscal transparency questionnaire prepared by the IMF staff. The assessment has two parts. The first part is a description of practice, prepared by the IMF staff on the basis of the questionnaire response and additional information provided by the authorities. The second part is an IMF staff commentary on fiscal transparency in Papua New Guinea.

## II. DESCRIPTION OF PRACTICE

### A. Clarity of Roles and Responsibilities

2. **The general government sector is well defined in statistical terms.** The general government sector is defined consistent with *System of National Accounts* (SNA 93) concepts. In a number of respects, however, responsibilities for undertaking and controlling general government activity have become blurred and breakdown of a number of governance practices has been acknowledged by the present government.

3. **Checks and balances between parliament and government need to be re-established.** The roles of the parliament, the judiciary, and the executive are clearly specified in the constitution. In practice, the judiciary functions effectively as an independent check on some of the fiscal policy actions of parliament and government.<sup>1</sup> Parliament, however, has not in recent years been acting as an effective check on fiscal management. For example, the Public Accounts Committee has not met for the last three years.

4. **Government involvement in the private sector is pervasive.** Government equity ownership is widespread, particularly in the mineral, agricultural, and financial sectors. Government equity ownership is, however, reported. There are serious concerns about the quality of regulation in some areas. Forestry industry regulations, for instance, are very complex and nontransparent. In some cases, regulations have not applied equally to government-owned businesses and private companies. The government intends to initiate a program of deregulation, and to streamline remaining regulations, especially of the forestry and financial sectors.

5. **The framework for intergovernmental fiscal relations is set out in the Organic Law on Provincial Governments and Local Level Governments of 1995.** The organic law sets out the respective taxation and expenditure powers and responsibilities. Intergovernmental transfers are, in general, determined by stable principles and formulae,

---

<sup>1</sup> For example, the supreme court declared parliament in breach of the constitution in 1999 because it did not meet for the minimum number of days each year set out in the constitution. The courts also frequently require the government to pay compensation to litigants for not complying with due legal process.

rather than ad hoc negotiation. There is, however, a lack of clarity in the roles of national and provincial governments in policy formulation, program design, and implementation. The proposed transfer of service delivery functions from the center to the provinces under the 1995 provincial government reform has not been realized in full. Experienced manpower from the central government was not transferred along with the transferred responsibilities with a result that provincial government experienced some capacity problems. There has also been some duplication and poor coordination between different levels of government. The government recently held a national dialogue with subnational government representatives, and has a number of initiatives underway to strengthen the intergovernmental system. The government has initiated a public expenditure review designed, in part, to address the question of appropriate level of resourcing of the functions of government in the central and provincial sectors.

6. **Responsibility for management of the central government budget is clearly defined in the Public Finances (Management) Act 1995.** This gives the Department of Finance and Treasury (DFT) a framework for control over the central government budget. No expenditure can be incurred except as provided for in a law. Only parliament can approve government borrowing by the central government, and only the minister for finance and treasury can approve loan guarantees. There is a clear line of accountability to individual agencies for the collection and spending of public funds. The central government budget documentation includes all aid-funded expenditures. There is a legal requirement for the government's accounts to be audited by an independent auditor general.

7. **The separation of the recurrent and development budgets, however, reduces the transparency of linkages between operating and capital spending.** This feature is compounded by the separation of responsibility for budget preparation between the DFT (which is responsible for the recurrent budget) and the Department of Planning (responsible for the development budget). The government has decided in this regard to present an annual development budget report alongside the annual budget to enhance reporting on this part of the budget.

8. **Considerable flexibility is provided to government in budget implementation.** A particular concern is the considerable scope available to the government to transfer funds during the year from under-spent to over-spent items. This has meant there can be a significant difference between the budget as approved by parliament and the budget as implemented. The government has made a commitment to seek the parliament's approval through a supplementary budget for any substantial variations between the appropriations and the budget as implemented. Reporting on the actual use of contingency funds is also limited. Use of contingency funds is reported in the auditor general's annual report, but this has not recently been made public in a timely fashion.

9. **Central control over general government fiscal activity faces a number of practical difficulties.** Under the organic law, provincial governments must submit their annual budgets to central government for approval, and an annual audited fiscal outturn. Subnational governments may not borrow, or guarantee borrowings of other persons, for

terms in excess of six months without the approval of the central government. The central government also provides a large proportion of the revenues available to subnational governments. In practice, however, there are delays in the submission of provincial government budgets, and serious information limitations mean the central government does not know in a timely fashion the overall levels of revenue available to provincial governments or their total level of spending.

10. **There is lack of clarity over the operation of certain central government funds.** Specific laws govern the operation of individual central government funds (such as the Mineral Resources Stabilization Fund (MRSF) Act). Reporting of the financial position of the MRSF, however, has been inadequate. External borrowing using the MRSF funds as collateral was not fully disclosed. The government has directed the fund to dispose of the major part of its assets and the proceeds have been used to repay public debt.

11. **Inadequate information has been provided on the Public Officers Superannuation Fund (POSF) and the National Provident Fund (NPF).** The DFT, the parliament, and the public have not received adequate reports on the activities and financial position of these funds, which have been subject to extensive political interference. The government has commenced a series of measures to place the governance of these funds on a firm footing. Financial and managerial audits have been completed in March 2000, actuarial reviews are intended, and a Commission of Inquiry has been instituted into the activities of the NPF. The government will ensure that the funds are audited annually and that the audited annual reports are published within three months of the end of the financial year. Over the medium term, a framework will be developed allowing competition from private sector funds.

12. **Public financial institutions (PFIs) and commercial statutory authorities (CSAs) have undertaken extensive quasi-fiscal activities.** PFIs, such as the PNG Banking Corporation and the Rural Development Bank have been subject to extensive and nontransparent political influence on interest rates, lending policy, and individual lending. Commercial Statutory Authorities (CSAs)<sup>2</sup> have also been used for quasi-fiscal purposes, and there has been political influence in their business decisions. The Government's privatization program will reduce major concerns in the operation of some PFIs and CSAs.

13. **The role of the Bank of Papua New Guinea (BPNG) is being substantially reviewed and clarified.** The bank has, in the past, been used extensively for financing the fiscal deficit, at times beyond the limit set down in the Central Bank Act, and the government has passed legislation to restore the independence of the BPNG and increase

---

<sup>2</sup> These are nonfinancial public enterprises operating under a specific statute rather than company law. They include public utilities (such as Electricity, Post and Telecommunications, and Water), Air Niugini, and the Harbor Board.

transparency in its operation. This legislation aims to ensure that there is no outside influence in the running of monetary policy and that government will no longer borrow from the BPNG to finance the deficit. The BPNG will acquire government securities only for monetary policy purposes. This policy has been operational since January 2000.

14. **The legal basis for taxation is set out clearly in the various tax statutes.** There are a number of incentive schemes in both the Income Tax and Customs Acts. In general the incentives are set out clearly in statute, and there is limited administrative discretion. However cabinet does have the capacity to vary incentives and concessions by regulations which are not subject to parliamentary approval. The provisions of the tax laws are observed moderately well in practice, although there are weaknesses in the area of tax audit. Tax regulations and administrative procedures are clear for most taxes, and a range of public information is provided. There are well-established internal controls within IRC, and internal audit and internal investigation functions. Taxpayers have the right to object to an assessment, and to appeal against an IRC review of their assessment to the ombudsman, a tribunal, or the courts.

15. **Ethical standards of behavior, and responsibility for the handling of public funds, are set out clearly, although observance is uneven.** The Public Service General Orders set out ethical standards of behavior, and the government recently approved a code of conduct for public servants. The Public Finances (Management) Act 1995 also specifies the personal responsibility of officers in the handling of public funds, and prescribes sanctions for noncompliance. These standards and responsibilities have, however, been applied unevenly across the government. In this context, the government announced in the 2000 Budget that strengthening financial management and expenditure controls will also be a major task for next year and that no official departmental head would in the future breach the Public Finances (Management) Act without penalty.

## **B. Public Availability of Information**

16. **Budget coverage is comprehensive for central government, but no presentation can be compiled for general government.** The central government budget includes spending out of fees and services retained by agencies,<sup>3</sup> and spending from trust accounts. The budget documents provide information on some central government funds—for example, the MRSF, but not on some large publicly-controlled funds, for example the POSF and the NPF. While the central government budget shows the transfers to provincial governments, the total budgeted revenue and spending of subnational governments is not shown. A consolidated picture of general government cannot presently be compiled, and there is no ex post information on the outturn for general government. The final accounts of central government are consistent in coverage with the central government budget.

---

<sup>3</sup> The government recently closed all major departmental revenue and recurrent expenditure trust accounts to ensure all miscellaneous departmental revenues are brought to account in the public account. Departments had been failing to report some of these revenues, and diverting them to trust accounts.



17. **There is a need to provide more comparative information with the Budget.** The standard budget tables provide information on the actual budget outturn for the year two years prior to the budget year. Most tables also show the budget appropriation for the year preceding the budget year, while some summary tables show instead the expected outturn for the year preceding the budget year. No tables in the budget documents show budget appropriations for the year preceding the budget year, together with the latest available expected outturn. Forecasts of the main budget aggregates are shown for the three years following the budget year.

18. **No information is provided with the budget on contingent liabilities, tax expenditures, or quasi-fiscal activities.** Detailed information on some contingent liabilities, namely government-guaranteed loans, is, however, provided with the final accounts. Some departments maintain an internal record of outstanding litigation against the government, but no information on these fiscal risks, which have been significant, is collated and published. The IRC has in the past published in its *Annual Reports* information on the amount of tax foregone due to tax incentives and concessions (the most recently published *Annual Report* is from 1989). Generating this information currently would, however, require a substantial manual effort.

19. **Papua New Guinea publishes detailed information on public debt.** The annual budget contains a section on debt charges, including budgeted interest, amortization, and other charges, with detailed breakdowns by type of instrument and holder. Although no information is provided in the budget documents on the stock of debt, the BPNG, which formerly undertook debt management operations on behalf of the government, publishes detailed quarterly information on debt (in the *Quarterly Economic Bulletin*).<sup>4</sup> Information provided includes the stock of outstanding public debt classified by source (domestic or external) and by holder, together with an analysis of changes in the stock of debt. This information is current to within a quarter of the reference period. No information is currently published on the maturity structure or the currency composition of public debt.

20. **Some information is provided on financial assets.** The budget documents contain a summary table of changes in the balance of the MRSF. The budget also provides the current and projected year-end balance in all trust accounts. The final accounts show the balances in various bank accounts held by government agencies. The BPNG's *Quarterly Economic Bulletin* also provides details of movements in the MRSF on a quarterly basis. The final accounts contain a detailed statement of the government's equity investments, including capital contributions and equity options. No comprehensive summary information is published on central government financial assets, and therefore no calculation of central government net financial worth can be readily made.

---

<sup>4</sup> The debt management function is now being undertaken within the DFT.

21. **Legislative commitments exist in some areas to provide fiscal information.** For example, the Public Finances (Management) Act requires departmental secretaries to provide financial reports in a specified form, and public bodies to provide audited financial statements no later than 30 June in the following fiscal year. In practice, there is regular internal monthly reporting of central government budget outturns during the year. In the letter of intent [a published document] the government committed to publishing a mid-year budget report. There is, however, no comprehensive legislative requirement for the government to publish fiscal information either in connection with the budget or within the year. Nor does the government announce advance release date calendars for fiscal information.

### **C. Open Budget Preparation, Execution, and Reporting**

22. **The budget documents include a discussion of the fiscal and economic outlook.** *Economic and Development Policies* discusses the world economic outlook, recent economic and fiscal developments in Papua New Guinea and the government's structural reform program. It also sets out the medium term economic outlook and prospects, and the fiscal strategy, budget priorities, and budget framework for the 2000 budget. The main budget aggregates are set out for 2000 and the following three years. The development budget is framed in terms of a separate Medium Term Development Strategy (MTDS)—not discussed in the budget documents—which is the main policy document highlighting sectoral priorities. There is a short discussion of the implications for fiscal sustainability of the medium term fiscal outlook and the government's medium term fiscal strategy.

23. **The budget is presented within a comprehensive and consistent medium term macroeconomic framework.** The economic assumptions and key parameters are shown (for example price and volume assumptions for the main commodities), although the estimated fiscal effects of variations in the key forecasting assumptions are not shown. There is some discussion of risks to the international economic outlook, but no information is presented in the budget documents on contingent liabilities or other specific fiscal risks. Information on loans guaranteed by the central government is provided, however, in the final accounts. New initiatives are described in the budget speech. There is, however, no systematic summary statement in the budget documents of the estimated fiscal effects of all new policies (both revenue and expenditure) contained in the budget. There has been no reporting of compliance with fiscal rules (such as the law constraining the amount of central bank financing of the budget deficit, or the law restricting transfers to the budget from the MRSF). A statement of the government's accounting policies is provided in the final accounts, but not with the budget documentation.

24. **The economic and functional classification of central government revenue and expenditure are consistent with international standards.** Government transactions are shown on a gross basis and the classification is consistent with GFS principles. It is possible to trace a clear line of accountability to individual central government agencies for the collection and expenditure of public funds, although the accountability chain breaks down in practice at subnational government levels. There is a program structure under which

information is generally provided on the objectives of individual expenditure programs, in principle making it possible to evaluate the results of government spending against these objectives. In practice, however, and as in many countries, considerable further development of the program framework, strengthening of analytical skills, and public sector management reform are required before a performance orientation can be injected into the budgeting system.

25. **The standard budget balance is the overall balance net of asset sales.** The inclusion of asset sale proceeds as a financing item shows more clearly the underlying fiscal balance. The overall balance is inclusive of all foreign grants. No supplementary fiscal balance information is provided, however—for example the primary balance, or the overall balance net of foreign grants—despite the significant size of public debt and foreign grant aid in Papua New Guinea.

26. **The government accounting system is comprehensive at central government level, although expenditure arrears have been a problem.** It covers all foreign grant activities, although there is a significant difficulty in reconciling accounting records with bank accounts due to the practice of insulating aid funding in trust accounts outside the government's single account. There are also problems in the lack of interface between the central government accounting system and that for lower level governments. This is to be addressed in the planned Financial Management Improvement Program under the auspices of the World Bank and the AsDB. Weaknesses in the government's personnel information system make it difficult to forecast and control spending by central government on wages and salaries. The government is currently integrating the different payroll systems, and intends to move toward integrating the payroll and personnel management systems. Expenditure arrears have been a problem for a number of years and the extent of the problem was revealed in an investigation in 1999. The commitment registration system has not been functioning in some areas, such as defense spending, and there has also been a tendency more generally to use off-system purchase orders that bypass the formal control system. The government is to strengthen expenditure control by requiring spending agencies to report expenditure commitments, and by bringing the issuance of warrants for the development budget into the central warrant system.

27. **There are frequent breaches of financial management regulations.** The Public Finances (Management) Act sets clear standards for internal controls within government agencies, but the internal control environment is weak in many departments. In addition to external audit by the auditor general, the Financial Inspectorate in the DFT checks the activities of departments for financial propriety. There are numerous instances of government agencies failing to remain within their appropriations, failing to reconcile accounting and banking data, and of departmental trust accounts having debit balances, in breach of the law. Failure to comply with financial reporting requirements is also widespread, and many CSAs and other public bodies have not submitted an annual report for a number of years. The government announced in the 2000 budget its intention to extend reporting requirements to all agencies, and to introduce penalties for noncompliance.

28. **Transparency and accountability for the use of the rural development funds has been quite inadequate.** These funds are made available through individual members of parliament for spending in their electorates, and accountability mechanisms are widely acknowledged to have been inadequate. The government, in conjunction with the World Bank, is developing a new transparency and accountability framework for the District Development Fund. Pending completion of that framework, the government is withholding the release of funds from the 2000 budget.

29. **A Central Supply and Tenders Board handles the purchase and disposal of property and stores, and the supply of works and services.** Its mode of operation is specified in the Public Finances (Management) Act. This area has often come under scrutiny, however, because of malpractice and lack of transparency. In the 2000 budget the government announced its intention to review the functioning and procedures of the board to make sure it operates in a transparent and accountable manner.

30. **The current government intends to strengthen the independent role of the Public Service Commission to reduce the politicization of the public service.** Procedures for public service employment are set out in the Public Services Management Act 1995 and the Public Service General Orders. They provide for appointments to senior positions to be made on the recommendation of the Public Service Commission. In recent years, however, the government has become closely involved in the appointment and dismissal of senior public servants. Previous governments have replaced a large proportion of departmental heads. In addition to a threat to the existence of an apolitical public sector there has been an attendant impost on the budget of the expenditure associated with paying out significant contractual obligations.

31. **Central government aggregate fiscal reports are timely, but annual reporting by departments is often late.** The legal framework provides for the annual publication of accountability reports. The government reports to parliament quarterly on the fiscal outturn. The BPNG also provides fiscal outturn information on a quarterly basis in the *Quarterly Economic Bulletin*. This includes information on the original and supplementary budget where applicable, and comparisons of the current year-to-date outturn with the same period in the previous fiscal year. The DFT intends to resume publishing a short quarterly summary statement of aggregate revenue and spending. Annual reports by departments and other public bodies are, however, not completed in a timely manner. In some instances agencies have not published an annual report for a number of years.

32. **The minister of finance has in recent years addressed parliament mid-year on the state of the economy and the mid-year fiscal position.** There has however been no detailed mid-year report to parliament presenting the fiscal outturn for the first half year, and assessing the implications for the full year's budget. As noted, the government has indicated its intention to prepare and table such a mid-year review. The audited final accounts of central government are generally completed within 7 or 8 months of year-end. (The 1998 final accounts were not publicly available as of March 2000, however, despite having been submitted to the speaker in July 1999). The final accounts contain information on some

central government funds, such as the MRSF. There is extremely limited reporting by provincial government and lower level governments, despite legislative requirements for them to do so, and no information is reported on fiscal developments for general government.

#### **D. Independent Assurances of Integrity**

33. **The Office of the Auditor General is independent, but its ability to act as a check on the fiscal performance of government has been limited in recent practice.** The office's role is focused primarily on financial compliance. The constitution also provides for a Public Accounts Committee (PAC) of parliament, and the Public Finances (Management) Act sets out detailed provisions for the functions and operation of the PAC, including its role in considering the reports of the auditor general. In the past, it has played an active role in scrutinizing budget implementation. However, the PAC has not met for three years, seriously weakening the ability of parliament and the auditor general to act as a check on the fiscal performance of government. A further impediment to the functioning of the audit office is the widespread failure of public agencies to submit annual reports in a timely manner. Moreover, the delay in tabling the auditor general's reports for the 1998 fiscal year in parliament significantly reduces the value of the audited financial information for accountability and decision making purposes. In addition, the budget of the audit office was cut by over 20 percent in 1999, and its budget in 2000 has, along with all other nonpriority departments, remained at the 1999 level.

34. **The current government has announced its intention to restore the role of the PAC and other watchdog institutions.** It proposes to ensure the independence and security of funding of the auditor general and ombudsman commission. An institutional strengthening project is being pursued with the World Bank, which would cover the auditor general, the ombudsman, the national forests authority, and other government oversight agencies.

35. **The forecasting assumptions used in the budget forecasts are published with the budget.** There are regular forecasting discussions between the Department of Treasury and Finance and the BPNG, which has its own macroeconomic forecasting model. In addition, external agencies such as the World Bank review the macroeconomic and fiscal forecasting models and methodologies. The macroeconomic forecasts and models are not generally available for independent public scrutiny.

36. **The Statistical Services Act (1980) provides the national statistician with technical independence.** Papua New Guinea partially meets the data integrity and quality standards set out in the IMF's *General Data Dissemination System* (GDDS) through the appointment of a country coordinator and the commencement of the assembly of GDDS metadata. The main areas requiring significant improvement are complying with specific targets for timeliness, and the quality of some statistical series. These issues are to be the principal focus of a planned institutional strengthening program for the Papua New Guinea statistics office.

### III. IMF STAFF COMMENTARY

37. **Papua New Guinea has a generally transparent framework for the conduct of fiscal policy, but a lack of information on general government and noncompliance with legal requirements have become major problems.** The central government budget is comprehensive in its coverage of the budget sector, and there is a generally sound legal framework for budget preparation, taxation, expenditure control, reporting and auditing. The budget is prepared and presented within a medium term macroeconomic framework. However, implementation of the legislative framework has become increasingly problematic in recent years. Basic fiscal reporting and expenditure control mechanisms have not been adequately observed. This breakdown has been compounded by an increasing resort to off-budget mechanisms to undertake fiscal activities. Much remains to be achieved also by way of improving the clarity of fiscal management roles, particularly with respect to the relationship between central and subnational governments, and controlling the quasi-fiscal activities of PFIs and CSAs.

38. **The authorities are to be commended for launching a comprehensive reform program to improve governance generally, and fiscal transparency in particular, although the reforms are still at a very early stage.** It will, however, take a concerted effort across a number of fronts, and sustained political commitment, to break the culture of noncompliance. In the 2000 budget the government announced its intention to embark on a comprehensive reform program to promote good governance, in recognition of the fact that there has been a breakdown in a number of governance structures in recent years, particularly those relating to the proper functioning of public institutions. As indicated in Part A, some actions have already been taken by the authorities, including establishing greater independence for the BPNG in the conduct of monetary policy, a strengthened expenditure warrant and expenditure monitoring system, and closure of major departmental revenue and recurrent expenditure trust accounts

39. **Fundamental reforms of watchdog institutions must be initiated to sustain proposed technical improvements.** The process of strengthening key institutions such as the Office of the Auditor General, the PAC and, ultimately parliament, must be initiated immediately to help restore the credibility of the fiscal management system. At the same, immediate practical steps must be taken to improve the scope and quality of fiscal information and strengthen budget execution.

40. **Key immediate steps to improve watchdog institutions could include the following:**

- Restoring the role of the PAC as a properly functioning committee of the parliament is a key element in ensuring the credibility of parliament as the supreme watchdog over the public finances on behalf of the people of Papua New Guinea. One step might be to convene a cross-party meeting to agree on re-establishing the PAC as a functioning committee.

- Ensuring adequate resourcing for the office of the auditor general. For instance, it may be worth considering procedural mechanisms for providing a greater than usual degree of legislative oversight in the operation and funding of the office. This might be achieved by using the office of the parliament, through the speaker or the chairman of the PAC, to negotiate with the executive for an appropriate resource level for the audit office. Mechanisms should also be developed for ensuring that deficiencies exposed by the auditor general are addressed satisfactorily by the relevant agency.
- In addition, steps need to be implemented to restore the independence of the senior public service from political influence

**41. The information provided to parliament with the annual budget should be substantially improved.** The following annexes or tables should be provided.

- The financial position and activities of all significant publicly controlled funds—such as the POSF and the NPF.
- A summary statement of central government financial assets and debt.
- An annual listing of amounts of tax revenues foregone through tax incentives and other tax expenditures.
- A statement of rules on use of contingency funds.
- To ensure the parliament is informed of changes in the budget execution, there should be specific reporting to parliament on the actual use of contingency funds and shifts in appropriations approved by the Secretary of DFT.
- A report on compliance with any fiscal rules (such as limits on government borrowing from the central bank).
- A summary statement of the estimated fiscal effects of all new policies introduced in the budget.
- A summary table showing, for each department, province, and CSA, total appropriations from both the recurrent and the development budget.
- In addition to reporting the overall budget balance, reporting the primary balance and the balance excluding foreign grants.

**42. The government should also make a specific commitment to the publication of fiscal information.** The current publication of aggregate fiscal developments within the year is not a legal requirement. It would be desirable to build credibility by including a requirement in legislation (for example in The Public Finances Management Act) for regular

within-year fiscal reporting. It would also be desirable for the government to provide advance release date calendars for fiscal reports (as provided for in the IMF's General Data Dissemination System).

43. **Budget execution should be strengthened.** It is especially important to improve the internal control environment in government agencies, and the commitment control system to ensure the government has a clear picture of the extent of outstanding commitments or expenditure arrears. In particular, commitment recording needs to be established for long-term contracts.

44. **Central government monitoring of general government fiscal activities needs to be improved.** Urgent and sustained action is required to strengthen accounting and reporting systems at the provincial level and ensure that provincial borrowing without central government approval is limited to the short-term needs authorized under the organic law.

45. **Quasi-fiscal activities of PFIs and CSAs should be identified and reported.** The government's privatization and deregulation programs will reduce the scope for quasi-fiscal activities—although it will be important that privatization be conducted in a fully transparent manner, and that the government's relationship with the newly privatized entities be clear. Enforcing timely financial reporting as announced will also strengthen transparency. The government should include with the annual budget documentation a statement of remaining significant quasi-fiscal activities of PFIs and CSAs, quantified where possible.