

**MANAGEMENT ACCOUNTING AND CONTROL  
SYSTEMS IN THE CONTEXT OF PUBLIC SECTOR  
REFORMS: A CASE STUDY OF A GOVERNMENT  
DEPARTMENT IN PAPUA NEW GUINEA**

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## Abstract

This thesis provides an empirical understanding of how management accounting and control systems (MACSs) are designed and implemented in the context of public sector reforms in a developing country by using a case study of the Department of Finance (DoF) in Papua New Guinea (PNG).

The DoF is one of the largest and most powerful central agencies in the PNG public sector. Over the years, it has undergone a number of structural reforms under the influence of external parties—mainly international aid agencies. During these periods, the DoF has adopted a significant number of private sector style MACS tools under the influence of the international financial institutions of the World Bank and the International Monetary Fund (IMF), and supported by the Asian Development Bank (ADB) and the Australian Agency for International Development (AusAID).

The DoF case study attempts to obtain an in-depth understanding of the private sector style MACS that have been designed and implemented in the DoF since the new public management (NPM) public sector reforms began in 1995. The period 1995–2006 is the focus of the study; two significant pieces of legislation stood as foundation pillars and triggered the public sector reforms in PNG.

The first trigger was the enactment of the new Organic Law on Provincial and Local-level Governments (OLPLLG). The introduction of this legislation introduced the first private sector style management control systems tools such as good governance, accountability, transparency, an enhanced service delivery mechanism and the private sector culture of good organisational performances in the DoF. Accountability is a cornerstone of good public governance and management because it requires those who hold and exercise public authority to be held accountable under the OLPLLGs and the *Public Finances (Management) Act* (PFMA). Although accountability regimes vary in important respects under these legislations, they collectively encompass the process in which customers or citizens hold their managers and public servants in the DoF accountable for their behaviours and performances in the design and implementation of

private sector style MACS in the DoF. It should be noted that an old Organic Law existed that embodied traditional public sector management that was not focused on transparency and accountability. Empirical evidence suggests that the old OLPLG was considered a foreign piece of legislation that was a replication of the Commonwealth of Australia and its federated states and local government councils. The old Organic Law embedded characteristics of a weak financial management and governance regime due to an incapacitated public sector. The new Organic Law was considered a significant piece of legislation that was meant to overcome the inherent difficulties of the former law and its associated management control systems (MCSs) with the introduction of a private sector culture of good financial management practices and work ethics.

The second trigger that led to public sector reforms in PNG was the amendment to the PFMA of 1996. The financial management reforms that culminated from the amendments to the PFMA are considered significant pillars of the public sector reforms in PNG. As the administering agency of the PFMA, the role and overarching influence of the DoF has triggered consequences for the entire government under these financial management reforms. The amendment to the PFMA also warranted NPM style public sector management and led to the adoption of a significant number of private sector style MACS in its design and implementation of these techniques in the DoF. Many of these MACS were directly influenced by external aid agencies in their actual design and implementation.

However, this study has an exploratory nature, with a specific focus on successes and failures in the design and implementation of MACS tools. Where failures have been encountered, the study attempts to uncover the difficulties encountered in implementing these MACS tools in their daily practices and it provides a road map regarding how the MACS tools were modified to suit their local environment as a means of overcoming these inherent difficulties. The qualitative methodological paradigm has been adopted through a subjective and interpretative case study of the DoF. In qualitative case study research, multiple sources of data have been used to explore the context of the case study, such as archival records, interviews, and direct observations. The study took a total of five months from 1<sup>st</sup> June 2011 to 31<sup>st</sup> July 2011 and from 1 November 2011 to 28 February 2012. Historical government documents relating to the public sector reforms from 1995-2006 were collected and analyzed. Semi structured interviews

entailed 40 in-depth interviews at various levels of management in the DoF were conducted as an appropriate method to inherently capture human interactions. Direct observations were also used to explore the behaviours of managers in the DoF and the interpretive schemes used to communicate and understand each other in their daily routine practices in the DoF. The data collected suggest that external influences have brought to bear the difficulties encountered in the design and implementation of MACS in the DoF. This study therefore reinforces the findings of researchers in other developing countries, who have claimed that where external influences are exerted on organisations, MACS have limited success or have failed in these organisations.

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## **DEDICATION**

This thesis is dedicated to my Late parents, my Father, Kambanei Yefumi and Mother Wavinjo Hembiniaka Yefumi

and

my Father-in-law, Bonnie Yuandu and Mother-in-law, Late Nani Yuandu  
Who passed away during my Doctoral study.

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## List of Abbreviations

ABC	Activity-Based Costing
ABG	Autonomous Bougainville Government
COA	Chart of Accounts
ADB	Asian Development Bank
AFO	Area Finance Office
APS	Australian Public Service
BMS	Bureau of Management Services
BSC	Budgets Steering Committee
BSC	Balance Scorecard
CACC	Central Agencies Coordinating Committee
CABS	Cash Based Accounting & Budgeting Systems
CAS	Country Assistance Program
CBA	Cost Benefit Analysis
CBD	Central Business District
CBPLLGL	Capacity Building Project for Local Government Leaders
CPA	Certified Practicing Accountants
CSDB	Compliance and System Development Branch
DPM	Department of Personal Management
DF&T	Department of Finances & Treasury
DoF	Department of Finance
DoT	Department of Treasury
DPM	Department of Personnel Management
DPWS	Department of Public Works and Services
DT	District Treasurer
DTO	District Treasury Office
DSIP	District Services Improvement Program
DSP	Development Strategic Plan
DTRP	District Treasury Rollout Program
ERP	Enterprise Resource Planning
ERPS	Enterprise Resource Planning System

FAS	First Assistant Secretary
FC	Financial Controller
FI	Finance Instructions
FMIP	Financial Management Improvement Program
FMM	Financial Management Manual
GAAP	Generally Accepted Accounting Principles
IA	Implementation Agencies
IAS	International Accounting Standards
ICMA	Institute of Chartered Management Accountants
ICT	Information & Communication Technology
IFMIS	Integrated Financial Management Informational Systems
IFMS	Integrated Financial Management Systems
IIA	Institute of Internal Auditors
ILPOC	Integrated Local Purchase Order and Commitment
IMF	International Monetary Fund
JDP & BPC	Joint District Planning & Budgets Priority Committees
KPI	Key Performance Indicators
PI	Performance Indicators
LDC	Less Developed Countries
LLGA	Local-level Government Assembly
LLGs	Local Level Governments
JDPBPC	Joint District Planning and Budgets Priority
MA	Management Accounting
MAC	Management Accounting Control
MACS	Management Accounting and Control Systems
MARB	Management Accountants Registration Board
MAS	Management Accounting System
MBC	Ministerial Budgets Committee
MCS	Management Control System
MDG	Millennium Development Goals
MTEF	Medium Term Expenditure Framework
MTFMS	Medium Term Financial Management Strategy
MTDP	Medium Term Development Plan
MTFS	Medium Term Fiscal Strategy

MNC	Multinational National Corporations
MNG	Multinational and International Corporations
MOA	Memorandum of Agreement
NPC	National Planning Committee
NEC	National Executive Council
NEFC	National Economic and Fiscal Commission
NGO	Non-Government Organization
NPM	New Public Management
OIDA	Office of International Development Assistance
OLPLLG	Organic Law Provincial & Local-level Government
PBS	Program Budgeting System
PDC	Public Debt Committee
PEC	Provincial Executive Council
PERR	Public Expenditure Rationalization Review
PFMA	Public Finances Management Act
PGAS	Provincial Government Accounting System
PNG	Papua New Guinea
PNGDAD	Papua New Guinea Development Assistance Database
PNGDSP	Papua New Guinea Development Strategic Plan
PNGGEM	Papua New Guinea Government Economic Model
PPBS	Planning Programming Budgeting Systems
PPEC	Parliamentary Plans and Estimates Committee
PPII	Provincial Performance Improvement Initiative
PPP	Private Public Partnerships
PSASB	Public Sector Accounting Standards Board
PSC	Public Service Commission
PT & DT	Provincial Treasury & District Treasury
PT	Provincial Treasurer
PTO	Provincial Treasury Office
ROCE	Return On Capital Employed
ROE	Return on Equity
ROI	Return On Investments
RONA	Return On Net Assets
RPM	Receiver of Public Money



SAP	Structural Adjustment Program
SQP	Strongim Govman Program
SOE	Systems of State Owned Enterprises
ST	Structuration theory
TMS	Treasury Management System
TQM	Total Quality Management
WPA	Waigani Public Account