# The 2nd Accountants Convention

## Theme: "Compete or Collaborate; The Role of Professionals in the East African Region"

**Marriott Hotel – Kampala 7th – 9th August 2019**

# Entrenching Sound Public Finance Management Practices

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# In this session….

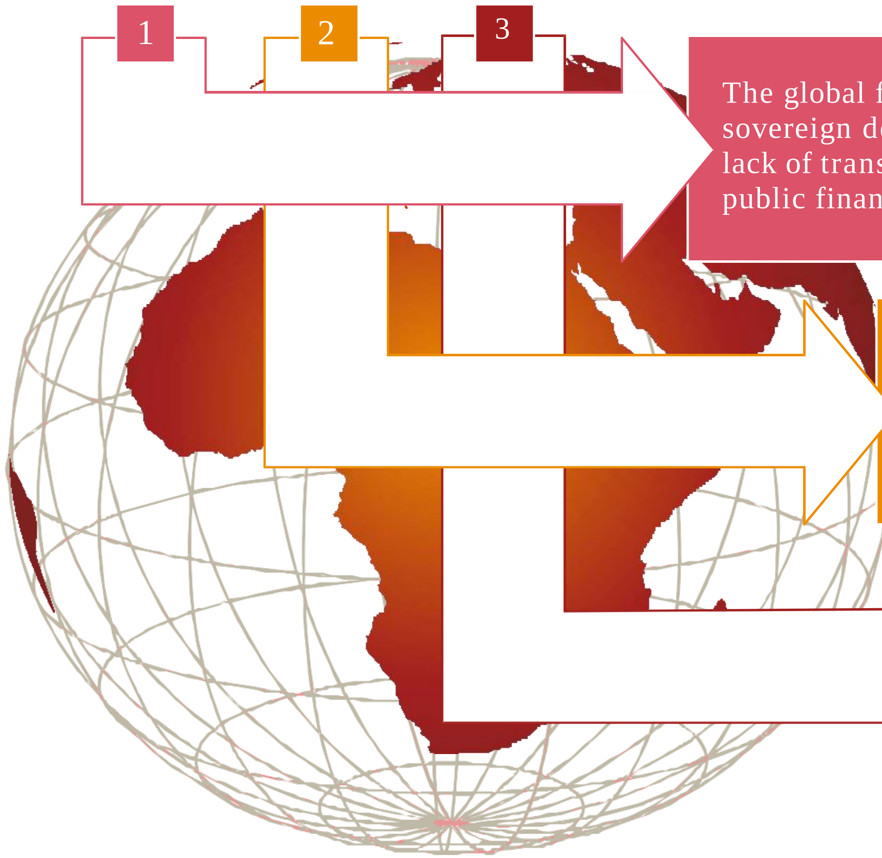
Introduction

Review of Public Finance Management

Entrenching Sound PFM

Lessons and Conclusion

# Setting the stage…where are we ?




The global financial crisis and the subsequent sovereign debt crisis have brought to light the lack of transparency in public finances and poor public finance management.

There is growing recognition of the importance of appropriate accounting and financial management in the public sector as a key means of achieving sustainable public finance.

Public sector entities across the world apply IPSAS as the financial reporting framework.

The adoption of IPSAS by the Governments is a giant step towards achieving transparency and accountability in the Public sector. This requires the commitment and support of all key stakeholders.

# Public Finance Management (PFM)

- PFM is the set of laws, rules, systems and processes used by sovereign nations (and sub-national governments), to mobilize revenue, allocate public funds, undertake public spending, account for funds and audit results.

- PFM encompasses a broader set of functions than financial management and is commonly conceived as a cycle of six phases, beginning with policy design and ending with external audit and evaluation.

- A large number of actors engage in this 'PFM cycle' to ensure it operates effectively and transparently, while preserving accountability for outputs/outcomes

# Public Finance Management (PFM)

- The objective  of Public Financial Management Reforms (PFMR) is centered on, among other functions, enhancing transparency in governance, increasing prudential allocation of financial capital, accountability in financial management, separating policy and management functions.
- PFMRs seek to ensure fiscal efficiency and discipline in the use of public finances by enhancing public service efficiency and safeguarding available resources to be used in the best interest of the people.
- The main challenges  include fund disbursement delays, budget execution delays, wrong prioritization, operational inefficiencies, misappropriation of resources, inadequate of capacity and corruption.

# Entrenching PFM - Critical Success Factors

- Adequacy of the roll-out plan and the sequencing of reforms; clearly defining benchmarks and milestones; modular approach.
- Identification of functional PFM priorities; thinking small. Synchronizing national and sub national operations
- Adequacy of technical solution; use of technology, aligned with institutional reforms. But change in business processes bigger challenge.
- Adequacy of capacity building activities; capacity to absorb and then sustain reforms.
- Realism of short, medium, and long-term cost estimates.
- Commitment to reform; Supply side vs Demand side - Stimulating the demand for reforms. Role of civil society, media and donors. Change champions.

# Public Expenditure and Financial Accountability (PEFA)

- PEFA identifies seven pillars of performance in an open and orderly PFM system that are essential to achieving these objectives.
- The pillars define the key elements of a PFM system. They also reflect what is desirable and feasible to measure.

| PILLARS | INDICATORS | DIMENSIONS |
|---|---|---|
| **I. Budget reliability** | 1. Aggregate expenditure outturn | 1.1 Aggregate expenditure outturn |
| | 2. Expenditure composition outturn | 2.1 Expenditure composition outturn by function<br>2.2 Expenditure composition outturn by economic type<br>2.3 Expenditure from contingency reserves |
| | 3. Revenue outturn | 3.1 Aggregate revenue outturn<br>3.2 Revenue composition outturn |
| **II. Transparency of public finances** | 4. Budget classification | 4.1 Budget classification |
| | 5. Budget documentation | 5.1 Budget documentation |
| | 6. Central government operations outside financial reports | 6.1 Expenditure outside financial reports<br>6.2 Revenue outside financial reports<br>6.3 Financial reports of extrabudgetary units |
| | 7. Transfers to subnational governments | 7.1 System for allocating transfers<br>7.2 Timeliness of information on transfers |
| | 8. Performance information for service delivery | 8.1 Performance plans for service delivery<br>8.2 Performance achieved for service delivery<br>8.3 Resources received by service delivery units<br>8.4 Performance evaluation for service delivery |
| | 9. Public access to fiscal information | 9.1 Public access to fiscal information |

| PILLARS | INDICATORS | DIMENSIONS |
|---|---|---|
| **III. Management of assets and liabilities** | 10. Fiscal risk reporting | 10.1 Monitoring of public corporations |
| | | 10.2 Monitoring of subnational governments |
| | | 10.3 Contingent liabilities and other fiscal risks |
| | 11. Public investment management | 11.1 Economic analysis of investment proposals |
| | | 11.2 Investment project selection |
| | | 11.3 Investment project costing |
| | | 11.4 Investment project monitoring |
| | 12. Public asset management | 12.1 Financial asset monitoring |
| | | 12.2 Nonfinancial asset monitoring |
| | | 12.3 Transparency of asset disposal |
| | 13. Debt management | 13.1 Recording and reporting of debt and guarantees |
| | | 13.2 Approval of debt and guarantees |
| | | 13.3 Debt management strategy |

| PILLARS | INDICATORS | DIMENSIONS |
|---|---|---|
| **IV. Policy-based fiscal strategy and budgeting** | 14 Macroeconomic and fiscal forecasting | 14.1 Macroeconomic forecasts |
| | | 14.2 Fiscal forecasts |
| | | 14.3 Macrofiscal sensitivity analysis |
| | 15. Fiscal strategy | 15.1 Fiscal impact of policy proposals |
| | | 15.2 Fiscal strategy adoption |
| | | 15.3 Reporting on fiscal outcomes |
| | 16. Medium-term perspective in expenditure budgeting | 16.1 Medium-term expenditure estimates |
| | | 16.2 Medium-term expenditure ceilings |
| | | 16.3 Alignment of strategic plans and medium-term budgets |
| | | 16.4 Consistency of budgets with previous year's estimates |
| | 17. Budget preparation process | 17.1 Budget calendar |
| | | 17.2 Guidance on budget preparation |
| | | 17.3 Budget submission to the legislature |
| | 18. Legislative scrutiny of budgets | 18.1 Scope of budget scrutiny |
| | | 18.2 Legislative procedures for budget scrutiny |
| | | 18.3 Timing of budget approval |
| | | 18.4 Rules for budget adjustment by the executive |

| PILLARS | INDICATORS | DIMENSIONS |
|---|---|---|
| V. Predictability and control in budget execution | 19. Revenue administration | 19.1 Rights and obligations for revenue measures |
| | | 19.2 Revenue risk management |
| | | 19.3 Revenue audit and investigation |
| | | 19.4 Revenue arrears monitoring |
| | 20. Accounting for revenue | 20.1 Information on revenue collections |
| | | 20.2 Transfer of revenue collections |
| | | 20.3 Revenue accounts reconciliation |
| | 21. Predictability of in-year resource allocation | 21.1 Consolidation of cash balances |
| | | 21.2 Cash forecasting and monitoring |
| | | 21.3 Information on commitment ceilings |
| | | 21.4 Significance of in-year budget adjustments |
| | 22. Expenditure arrears | 22.1 Stock of expenditure arrears |
| | | 22.2 Expenditure arrears monitoring |
| | 23. Payroll controls | 23.1 Integration of payroll and personnel records |
| | | 23.2 Management of payroll changes |
| | | 23.3 Internal control of payroll |
| | | 23.4 Payroll audit |
| | 24. Procurement | 24.1 Procurement monitoring |
| | | 24.2 Procurement methods |
| | | 24.3 Public access to procurement information |
| | 25. Internal controls on nonsalary expenditure | 25.1 Segregation of duties |
| | | 25.2 Effectiveness of expenditure commitment controls |
| | | 25.3 Compliance with payment rules and procedures |
| | 26. Internal audit | 26.1 Coverage of internal audit |
| | | 26.2 Nature of audits and standards applied |
| | | 26.3 Implementation of internal audits and reporting |
| | | 26.4 Response to internal audits |

| PILLARS | INDICATORS | DIMENSIONS |
|---|---|---|
| **VI. Accounting and reporting** | 27. Financial data integrity | 27.1 Bank account reconciliation |
| | | 27.2 Suspense accounts |
| | | 27.3 Advance accounts |
| | | 27.4 Financial data integrity processes |
| | 28. In-year budget reports | 28.1 Coverage and comparability of reports |
| | | 28.2 Timing of in-year budget reports |
| | | 28.3 Accuracy of in-year budget reports |
| | 29. Annual financial reports | 29.1 Completeness of annual financial reports |
| | | 29.2 Submission of reports for external audit |
| | | 29.3 Accounting standards |
| **VII. External scrutiny and audit** | 30. External audit | 30.1 Audit coverage and standards |
| | | 30.2 Submission of audit reports to the legislature |
| | | 30.3 External audit follow-up |
| | | 30.4 Supreme Audit Institution independence |
| | 31. Legislative scrutiny of audit reports | 31.1 Timing of audit report scrutiny |
| | | 31.2 Hearings on audit findings |
| | | 31.3 Recommendations on audit by the legislature |
| | | 31.4 Transparency of legislative scrutiny of audit reports |

# PFM and Accountability Beehive - Some Outstanding Issues

# Budget Management and Expenditure Controls

- The Public Finance Management framework requires effective management of budgets.

- An appropriate system should be used to process and track effective resource utilization

- Effective planning and financial control will help in:
  - Ensuring efficient and effective use of resources
  - Making sound decisions
  - Demonstrating accountability
  - Taking remedial action where needed

# Transparent Budget Making Cycle

## Budget Formulation

- Review of prior year spending
- Setting policies and objectives for new year
- Planning future spending
- Drafting budget document
- Approval of Budget

## Budget Execution & Monitoring

- Implementation of budget
- Managing resources
- Changing budget or managing PFM crises
- Collecting revenues, making payments
- Monitoring Budget Execution

## Accounting and Reporting

In-year reporting; year-end reporting; accounting and recording

## External Audit and Oversight

External audit; legislative review; civil society

# Policy Formulation & Priority setting

- ❑ This sets the foundation framework for spending public resources.
- ❑ Critical decisions with extremely significant implications to the welfare of society are done at this stage.
- ❑ Public participation

Evidence:

- ✓ Medium and long term plans
- ✓ Annual development plan –Annual priorities
- ✓ Policy Documents
- ✓ Debt Management Strategy

# Budget Formulation

- ❑Medium Term Expenditure Framework
- ❑Programme based budgets
- ❑Balanced budgets

Evidence

- ✓Rolling revenue and expenditure budget plans
- ✓Programme Based Budgets done
- ✓Own Source Revenue
- ✓Fiscal responsibility principles

# Budget Approvals

- A legislative function
- Budget Hearings –BAC
- Public participation

Evidence

- ✓ Resources disbursed
- ✓ Budgets discussed in plenary
- ✓ Alignment to policy and planning

# Budget Implementation & Reporting

- ❑ Compliance – Linkage between budgets, procurement plans and cash flow projections?
- ❑ Quarterly returns
- ❑ Annual returns
- ❑ M & E Systems

Evidence

- ✓ Absorption Rates
- ✓ Funds flow challenges – large percentage of development funds transferred in the last 3 months of the FY
- ✓ Supplementary budgets
- ✓ Pending bills - the amounts are increasing thus affecting following year budgets.

# Oversight & Governance roles

- ❑Office of the Auditor General - Audit reports
- ❑PAC & PIC Committees
- ❑Audit Committees

Evidence

- ✓PAC & PIC Committees – professional inputs/advisory?
- ✓Progress on previous audit opinion
- ✓Challenges in forming audit committees

# Challenges Impeding Sound PFM

1. Planning and Budgeting

   Weak linkages between planning and budgeting especially PBB.

2. Institutional Conflicts
3. Mismanagement of public resources

   There has been widespread mismanagement of public resources

4. Huge Pending Bills

   Entities accumulating huge pending bills. This affects businesses and disrupts the implementation of planned activities in the subsequent year.

5. Effective Internal Audit Departments and Committees
6. Delays in Submission of Financial Reports and other mandatory documents

# Conclusion

- Prudent fiscal planning at both the National and Sub national level is critical in fostering macroeconomic stability of the country

- Importance of meaningful sectoral strategies (e.g. for health, education, and agriculture sectors) which can feed into budget prioritization

- The issue of the scarcity of resources and the need to prioritize is key because we will not be able to fund all the things in the “wish list”.

# Conclusion

- Containing expenditures (especially recurrent – wages in particular) while at the same time re-allocating towards the key capital expenditure (social/economic) is very critical.

- **Finally**, we want to emphasis that fiscal discipline and macroeconomic stability is critical to provide the enabling environment for private sector to power growth, generate employment, and reduce poverty.

# We have a responsibility – Thank you