



PUBLIC FINANCE MANAGEMENT

Virtual Module 3:

Control systems in PFM

Control aims in PFM

Effectiveness and efficiency of operations;

- ✓ Fiscal stability;
- ✓ Budget credibility;
- ✓ Reliability of financial reporting;
- ✓ Compliance with laws and regulations;
- ✓ Safeguarding against loss, misuse and damage;
- ✓ Reducing Fraud and Corruption.

What PFM Controls?

- Overall Budget controls
- Expenditure controls
- Internal control
- Audit activities (Internal and External)

Remember the Budget Cycle?



Where in the Budget Cycle do controls take place?

PFM Control Systems and Corruption

Some definitions...

Fraud

Action that misleads to obtain financial benefit

Inside PFM system

Corruption

Giving or receiving financial benefit to influence decisions/actions

Usually, outside PFM system

PFM Control Systems and Corruption

- ✓ Can help identify corruption at officer/internal level;
- ✓ Can help reduce a culture of corruption;
- ✓ Has limited ability to detect corruption at political level;
- ✓ Is only part of the armoury against corruption.

Getting the basics right

Financial compliance

- ✓ adequate control system;
- ✓ clear and transparent financial regulations.

Control of expenditures and revenues

- ✓ controls performed by the ministry of finance, and other central agencies;
- ✓ controls performed within the spending units.

Jack Diamond 2013

Common budgetary problems

- ✓ Approved budget is unrealistic.
- ✓ Uncertainty concerning available resources, with quarterly or monthly allotments. In 2020, Covid-19 has demonstrated this.
- ✓ Extra-budgetary funds outside the normal budget process.
- ✓ Payment arrears not included in financial statements and approved budgets.
- ✓ Funds diverted to un-authorized purposes.



Overall Budgetary controls

Fiscal Rules enshrined in legislation

- ✓ Debt rules;
- ✓ Budget balance rules;
- ✓ Expenditure rules.
- ✓ Other

NB: Some countries combine two or more fiscal rules.

- ✓ Use of escape clauses in the event of crisis – e.g. COVID-19?

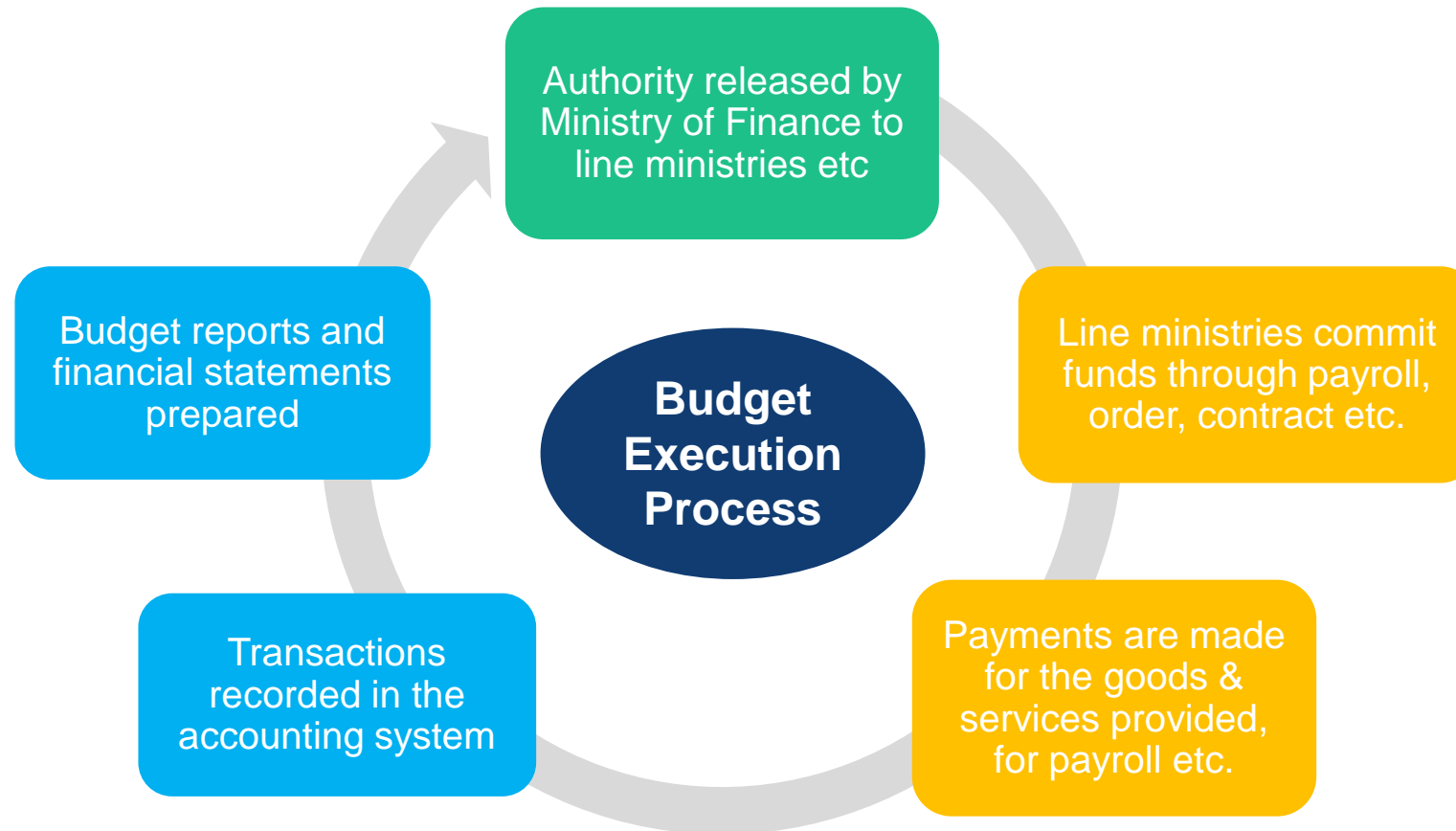
Overall Budgetary controls

In-year budgetary adjustments:

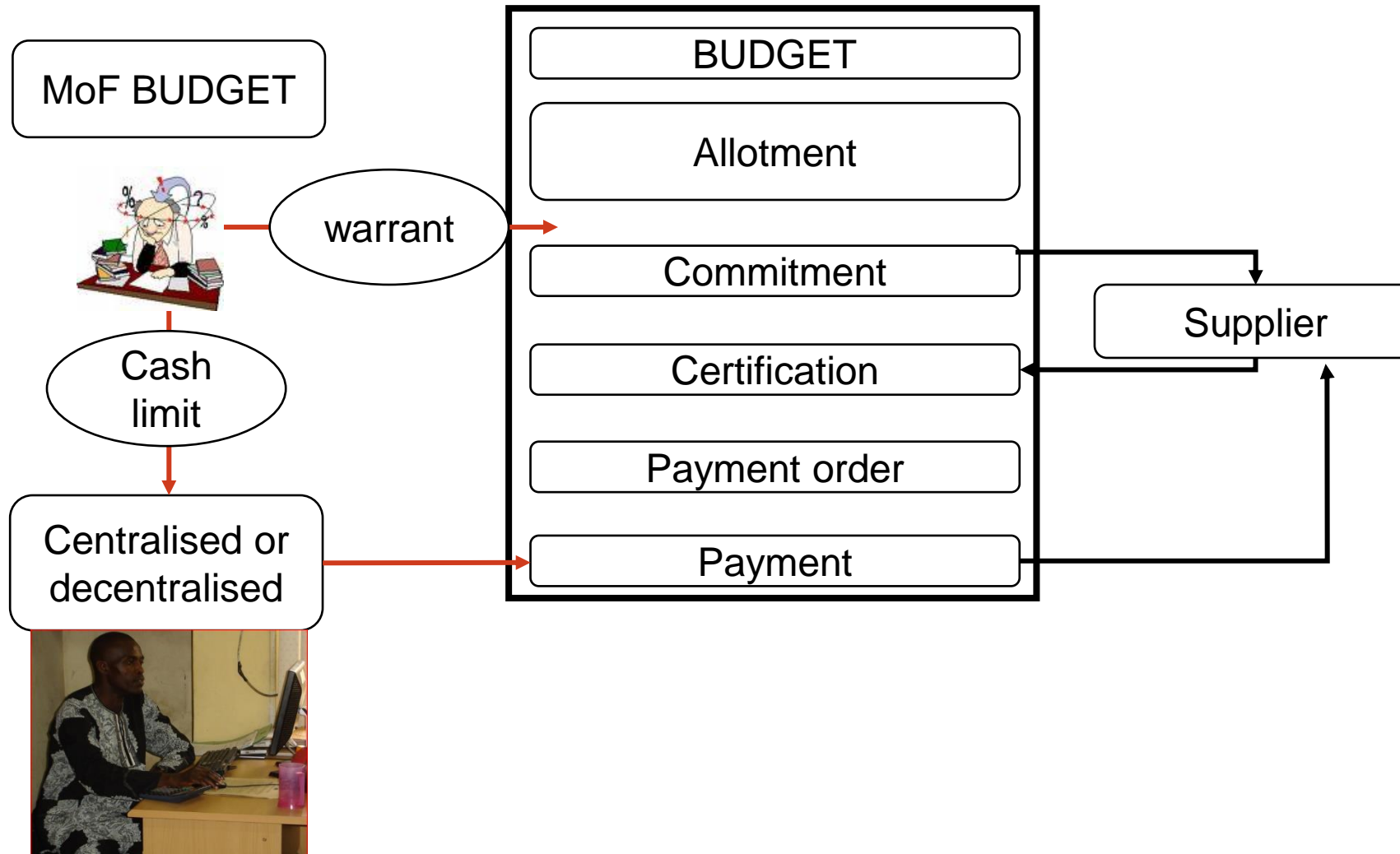
- Transfer of resources – across sub-codes
 - by line manager / ministry
- Virements – across budget headings (ministry, payroll...)
 - by Ministry of Finance / Treasury
- Contingency Budgets
 - Limits on usage e.g. “Emergencies”.
- Supplementary budgets (appropriations)
 - by Parliament

Expenditure Controls

The release of Funds by the Ministry of finance



Expenditure Controls



Expenditure Controls

Commitment control

- ✓ Ensures **budget units only spend what is appropriated** by Parliament & released by the Ministry of Finance.
- ✓ **Reduces payment arrears.**
- ✓ **Improves effectiveness in planning.**
- ✓ **Increases the confidence in suppliers** they will get paid.
- ✓ **Reduces rent seeking** opportunity for payment offices.

Expenditure Controls

Appropriation and Commitment

123 6545	stationery		annual appropriation - €1000		
date	payee	description	order	paid	balance
15 May 2010	ABC Ltd	paper	€240		€760
1 June 2010	ABC Ltd	paper		€240	€760
5 June 2010	XYZ Ltd	printer paper	€260		€500
12 July 2010	XYZ Ltd	printer paper		€260	€500

Expenditure Controls

Control Activities

- ✓ Authorisation and approval procedures;
- ✓ Segregation of duties (authorising, processing, recording, reviewing);
- ✓ Physical & virtual controls over resources and records;
- ✓ Reconciliations – e.g. bank statement & cash book;
- ✓ Supervision.



Expenditure Controls

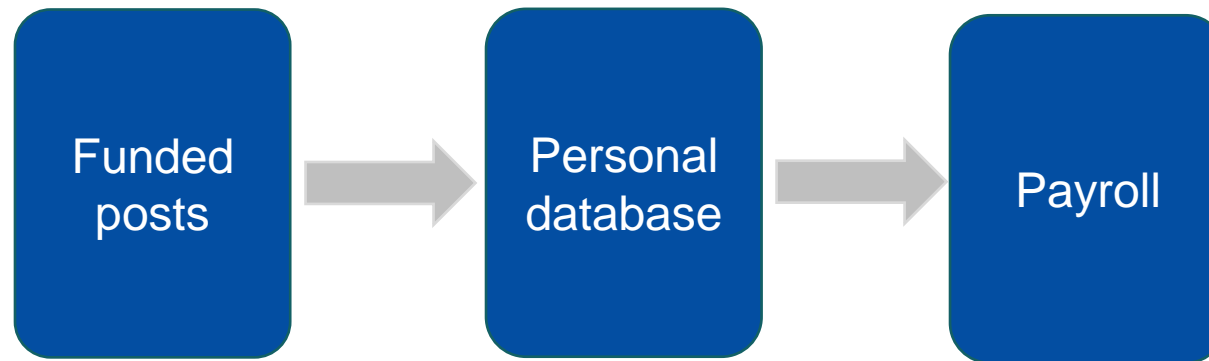
Monthly Expenditure Reporting

- Reflect the structure of the budget
- Shows receipts, committed funds, expenditures and transfers, opening and closing bank balances.
- Non submission of Monthly returns may result in suspension of further budget releases.

Expenditure Controls

Payroll Management; Payroll procedures, processes and risks

- ✓ Effective control is achieved by segregation of three sets of data files:



- ✓ Personnel and payroll data is to be updated promptly & may be linked or one database.

Expenditure Controls

Payroll controls



- ✓ Personnel files are dynamic – starters, transfers, and terminations;
- ✓ Restricted access to data, clear authorisation;
- ✓ Audit trails for all changes;
- ✓ Controls over standing data on wage rates, taxation etc.;
- ✓ Payroll audits and checks undertaken regularly.

Expenditure Controls

Payroll Management; institutional arrangements



Ministry of Public

Administration controls the number and grades of posts and the personnel budget;

Public Service Commission

manages the appointment and promotion of staff (nominal roll);

NB: Above two functions may be combined

Central Payroll (Ministry of Finance)

often decentralised.

Expenditure Controls

Procurement process; where are the controls?

Procurement Process



- procurement plan
- specification/bid documents

- advertising
- opening
- tender evaluation

- check delivery to order
- estimate value of work done

- certification of payment
- retention, mobilization fee



Expenditure Controls

Procurement approaches

- ✓ Standard list of suppliers
- ✓ Written quotations
- ✓ Formal tenders – pre-qualification

Exceptions:

- ✓ Single source procurement
- ✓ Restricted tendering

Internal Control

Definition: Internal control is a process, effected by management, designed to provide assurances on:

- ✓ Effectiveness and efficiency of operations;
- ✓ Reliability of financial reporting;
- ✓ Compliance with laws and regulations;
- ✓ Safeguarding against loss, misuse and damage;

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Internal Control

COSO Framework

Committee of
Sponsoring
Organisations



Internal Control

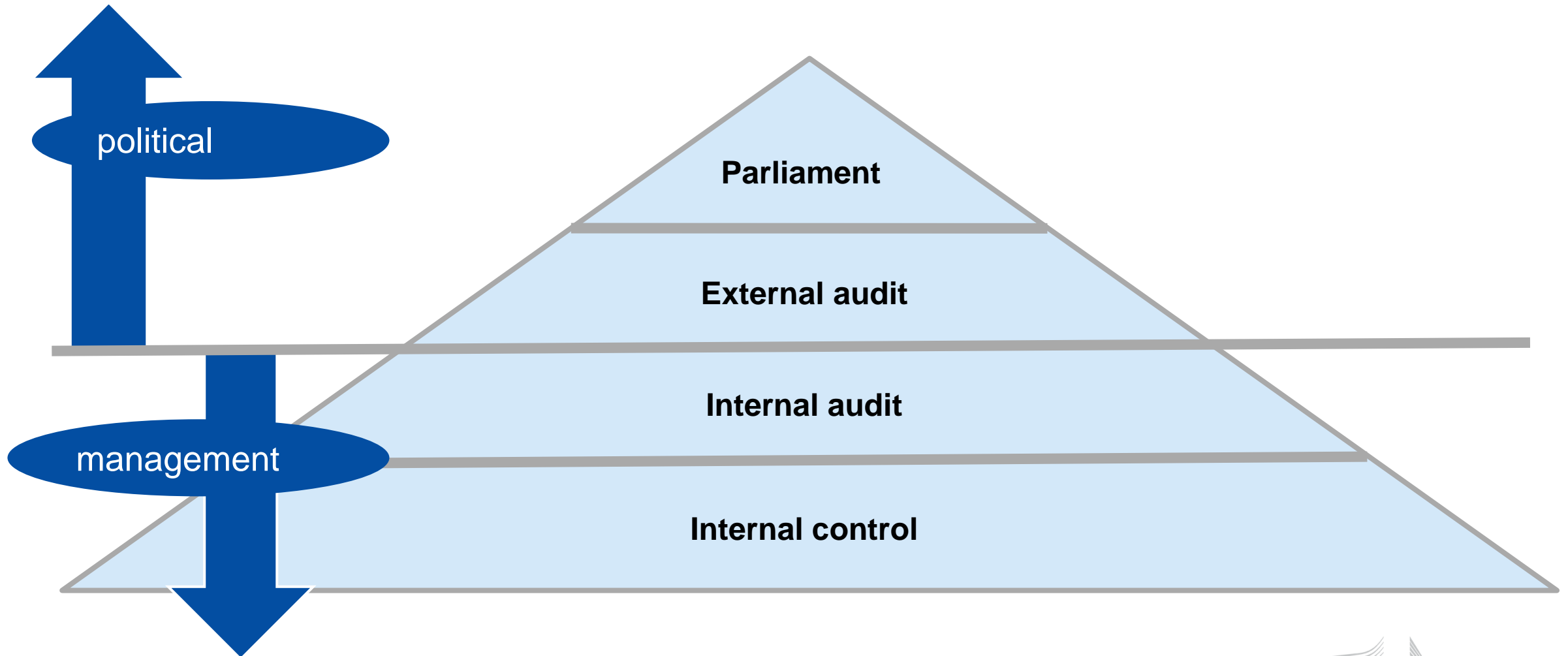
higher
level/strategic
aspects of the
framework

basics of
implementing
internal controls



COSO Cube - 2013 Edition

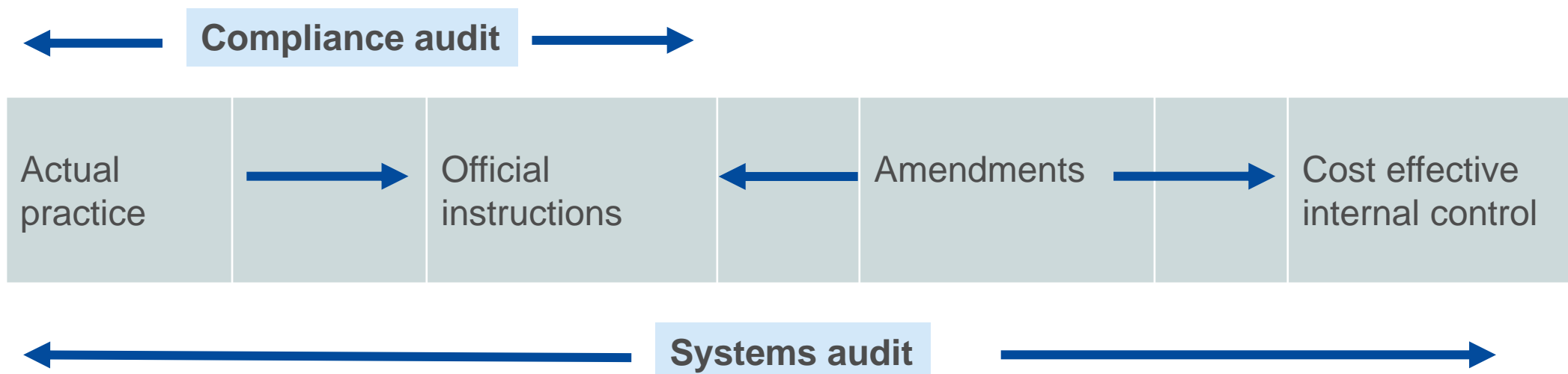
Audit and scrutiny systems



Internal Audit

- ✓ Management tool to assist the executive
- ✓ Operationally independent unit checking that internal controls are working properly and making recommendations for optimisation of controls.
- ✓ General Financial Inspectorate
 - reviews transactions, accounts and organisations;
 - compliance - financial laws & regulations;
 - corrective – analyse problems & recommend change;

Internal Audit



✓ Compliance with rules and regulations

- Easier to identify irregularities than poor internal control

✓ Systems

- Examines system of Internal controls, checks and balances

Internal Audit

- ✓ Internal audit's scope should include the entity's systems, procedures and locations;
- ✓ Internal audit should audit internal control systems, **risk management** and corporate governance procedures;
- ✓ Plan to cover the most significant (risky) systems each year.

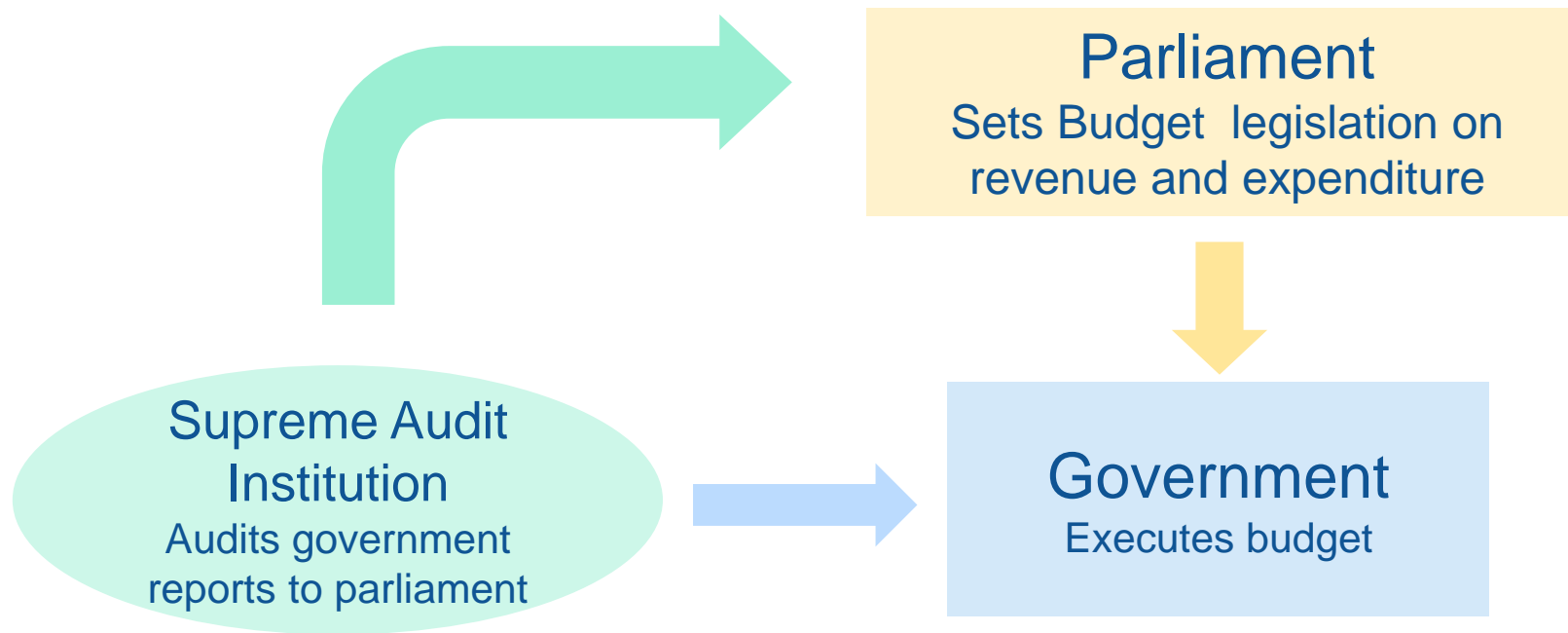
External Audit

Assurance to **Parliament** on:

- ✓ ***Regularity*** and ***probity*** of financial transactions.
- ✓ Soundness of internal financial controls.
- ✓ The reliability of financial statements.

External Audit

...the Accountability Cycle



External Audit

LIMA (1977) Declaration of the International Organisation for Supreme Audit Organisations (INTOSAI)

Two aspects of public sector audit of equal importance:

1. Traditional audit of legality and regularity of financial affairs is undisputed.
2. Audit of performance, effectiveness, economy and efficiency of public administration.

Up to each SAI to determine their relative importance.

External Audit

Independence of the Supreme Audit Institution; Mexico Declaration, 2007

- The existence of an appropriate and effective constitutional/statutory/legal framework.
- The independence of SAI heads and members (of collegial institutions), including security of tenure and legal immunity in the discharge of duties;
- The freedom to decide the content and timing of audit reports
- The existence of effective follow-up mechanisms on SAI recommendations;
- Financial and managerial/administrative autonomy and the availability of appropriate human, material, and monetary resources.

External Audit

Certification of Public Accounts?

Audit opinions are typically classified as:

- ✓ **Unqualified** – OK (clean...)
- ✓ **Qualified** – except for...
 - emphasis of matter
- ✓ **Adverse** – not OK (not a true and fair account...)
- ✓ **Disclaimer** – don't know (records insufficient to form an opinion...)

External Audit

Timeliness of Audit Reports

- Audited financial statements and audit report to be submitted to parliament within 9 months (or before next budget passed to parliament) still challenging in some countries.
- Audit report should be made public as soon as submitted to parliament.

External Audit

Follow Up of Audit Reports

- Audit work plans include follow up on previous audit findings.
- Line Ministries provide evidence of follow up.
- Sanctions are applied (by management) for failing to implement corrective measures.

Key messages

- ✓ Aggregate fiscal discipline enshrined in legislation through fiscal rules.
- ✓ Budget execution systems set the rules for expenditure management and compliance with legal appropriations.
- ✓ Internal controls and internal audit are an aid to management and operate throughout all parts of the PFM system;
- ✓ The Supreme Audit Institution provides an independent opinion of a government's finances.
- ✓ SAI independence & relationship with Public Accounts Committee (or Finance Committee) are key to give parliament assurance on government's financial performance.

TEST OUT

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Training Evaluation Form

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