

CIPFA

The Chartered Institute of
Public Finance & Accountancy

Public Financial Management

taking responsibility



About CIPFA

CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for accountants in public finance.

Our 14,000 members work throughout the public services, in public audit agencies, in major accountancy firms, and in other bodies where public money needs to be effectively and efficiently managed. CIPFA is a founder member of the International Federation of Accountants (IFAC).

As the world's only professional accountancy body to specialise in public services, CIPFA's portfolio of qualifications covers the essentials for a career in public finance. They include the gold standard professional qualification for public sector accountants as well as postgraduate certificates and diplomas for people already working in leadership positions.

Our in-house CIPFA Education and Training Centre delivers the full range of our programmes at locations across the world, and works with other providers of learning to provide our courses locally.

We champion high performance across the public services, translating our experience and insight into clear advice and practical solutions. They include information and guidance, courses and conferences, property and asset management systems, consultancy and interim people for a range of public sector clients.

Globally, CIPFA shows the way in public finance by standing up for sound public financial management and good governance. We work with donors, partner governments, accountancy bodies and the public sector around the world to advance good professional practice and enable better service delivery.



Foreword

The quality of financial management in governments around the world demands urgent, sustained and well-designed reform efforts in almost every country, including those which have moved to adopt the accrual basis of reporting. Governments, even the largest, manage their finances in ways that are too frequently inefficient and ineffective, and also, often, disruptive to economic activity. Far more than is necessary, governmental financial management creates a drag on the global economy, even though public services are themselves normally crucial to the functioning of the society and economy.

The accountancy profession has an essential role to play in addressing the quality of public sector financial management. The profession has considerable expertise in designing, implementing and operating financial information and financial management systems. Taken as a whole, the global profession knows what is needed and has the skills to effect change. The decision to act, however, lies with governments, many of whom appear to have little serious interest in operating high quality financial management systems. But the profession also has a voice, and a duty to use that voice to inform, encourage, and where necessary pressure governments to reform their financial management systems.

For the global accountancy profession to contribute to real reform of public financial management, it needs to act in a united and consistent manner. CIPFA is keen to work with other Professional Accountancy Organisations to build unity within the profession and to support governments in bringing about needed change.

Ian Ball
Chairman
CIPFA International

why does good public financial management matter?

While much of the blame for the global financial crisis, and in particular the consequent sovereign debt crisis, is laid at the door of the banks, too little attention has been paid to the contribution of deficient accounting, auditing and financial management practices by governments large and small.

Since then, financial regulations the world over are being revised to ensure banks recapitalise – but there has been no corresponding drive to better manage government balance sheets for the long term, not least because virtually none of them would be able to report on anything other than a cash basis.

The global interconnectedness of government finance and the capital markets has never been more apparent.

When poor financial reporting in the Greek government came to light, not only were banks and other lenders left with significant losses, the impact was felt directly by other governments all around the world.

With increasing frequency in the United States, we are seeing the damaging effects of poor long-term financial management and a failure to fully recognise public liabilities such as pension funds, with great cities like Chicago and

Detroit now facing downgraded credit ratings, possible default on their bonds and even potential bankruptcy.

In the developing world, a wealth of natural resources, unimaginable technological advances and exponential growth in productivity present, on the one hand, a phenomenal opportunity but also, on the other hand, profound risk from corruption. Without public sector institutions – with the capacity and capability to govern effectively and deliver good financial management, reporting and transparency – the huge potential of these countries will be only partially realized, at huge cost to their citizens.

Without good financial information and advice, policy makers and managers of public services will fail to make sound decisions. As a result, their actions will lead to poor use of public money, ineffective and inefficient services, and the exposure of organisations, services and people to unnecessary risk. These shortcomings may ultimately lead to painful corrections, as we have seen in many governments' responses to the recent crisis. These impacts occur in vital areas such as policing, health, pensions, education or housing services and they will have real adverse implications for the quality of people's lives and their life chances.

rebuilding trust and confidence

The sovereign debt crisis has highlighted a variety of unacceptable financial management practices and exposed the fact that the financial positions of some governments were unsustainable. But governments were not helped by their own inadequate stewardship, which had led to pre-crisis positions which were frequently far from healthy. The fact that these positions were disguised by inadequate accounting systems only serves to emphasise the urgent need for reform.

Not surprisingly, investor confidence – and public trust and confidence more generally – has eroded, posing significant challenges for economic performance and business development, and undermining global economic growth. In this crisis we have seen that government finances are wired into the financial sector, and the wider economy. They have

profound implications for society at large, affecting vital public services and infrastructure and impacting on jobs, growth and development.

Public financial management reforms, built on the cornerstone requirements of accrual-based budgeting and accounting, and high quality auditing, are a necessary and fundamentally important response to these challenges. Without such reforms, further crises will remain likely and probably inevitable.

While these are major issues for developing and emerging economies, and they are also critically important challenges for large parts of the developed world.

2011-13: good work but slow progress

In our original *Fixing the Foundations* presentations in 2011 we noted a number of significant initiatives taken to enable improved public financial management. These include the development of:

- a comprehensive suite of International Public Sector Accounting Standards (IPSAS)
- the Public Financial Management Performance Measurement Framework through the Public Expenditure and Financial Accountability (PEFA) initiative
- a comprehensive suite of international auditing standards (ISSAIs) for public sector entities, and
- the Aid Effectiveness Forum by the Organisation for Economic Cooperation and Development (OECD), which has sponsored a work stream focusing exclusively on public financial management.

Further important initiatives have been taken over the past two years. They include:

- The International Monetary Fund (IMF) has published new research into Fiscal Transparency, Accountability and Risk, arguing for improved fiscal transparency standards and stronger incentives for effective fiscal transparency practices.
- African Finance Ministries have collaborated in the drafting of a Declaration on Good Financial Governance with core principles focussing on transparency, accountability, institution building, results orientation, balancing reforms and capacity, and autonomy in reform choices.

- The European Commission has published an important report, *Towards Implementing Harmonised Public Sector Accounting Standards in Member States*. It supports the need for accrual accounting and acknowledges IPSAS as an indisputable reference for potential EU harmonised public sector accounts.
- A range of leading donor agencies and the accountancy profession, represented by the International Federation of Accountants (IFAC), have entered into a Memorandum of Understanding to Strengthen Accountancy and Improve Collaboration (MOSAIC). It has identified the strengthening of financial management capacity in the public sector as a top priority.
- The International Public Sector Accounting Standards Board is undertaking an ambitious project to develop a conceptual framework for its work. Meanwhile the World Bank, the IMF and the OECD are leading an initiative to identify how best to establish a public interest oversight mechanism for IPSASB's work. Both initiatives have the potential to enhance the credibility of IPSAS and to remove possible obstacles to more wide-scale adoption.

These important initiatives are helpful and welcome. But they are not enough. In particular, progress to adopt and implement accrual accounting and budgeting at country level remains frustratingly slow. There is a real risk of further crises occurring, with potentially devastating consequences, before this process gathers the much stronger momentum required. CIPFA is determined to take every step possible to expedite reform in order to mitigate that risk. We believe that the global accountancy profession should play a significant role in driving reforms forward.

steps we can take as a profession

CIPFA introduced its *Fixing the Foundations* initiative in 2011 to encourage a global step-change in financial management in governments. CIPFA is now seeking to build on that initiative through collaboration in two areas. First, in the development and sharing of policy and technical resources which will provide guidance to professional accountancy organisations (PAOs) in their representations to government. This material will also support the development of specific proposals for reform either by governments themselves or in collaboration with PAOs or other accountancy organisations.

The second area for collaboration addresses the skills that need to underpin public financial management (PFM) reforms. Most governments, and especially those operating cash-based budgetary and accounting systems, have a serious shortage of appropriate financial skills. This is an area in which CIPFA has significant resources; resources it is offering to share with other PAOs, and through them, with governments.

CIPFA's vision for the global profession

The global accountancy profession cannot stand by and allow the malaise in governmental financial management to continue. We have to speak out in the public interest and be clear about the actions which need to be taken, and about the potential consequences if they are not. We need to exert pressure, nationally and internationally, to encourage governments to prioritise reforms and to implement them urgently.

However we need to recognise that the profession itself faces major challenges. To overcome them and to effect the paradigm shift which is required, we need to organise ourselves in a coordinated and efficient way. Each professional accountancy organisation (PAO) around the world doing its best in its own local jurisdiction is not enough. It will

lead to a fragmented patchwork of under-powered efforts that will simply fail to do the job.

It is this realisation that led CIPFA to develop its initiative *Fixing the Foundations* and now to engage more closely with PAOs around the world.

Crucially, we need to make sure that the profession throughout the world is equipped to play its part in leading and implementing reform programmes.

developing a centre of excellence

As a registered charity acting in the public interest, with the understanding and experience to respect democratic and political institutions and support their progress to sound accounting arrangements, we wish to explore with other PAOs how we can collaborate to achieve the objectives identified above. We envisage a number of possibilities. One is the creation of a PFM Global Centre of Excellence which will bring all professional accountants working in the public sector into a single, united community. CIPFA will seek to work with other PAOs to further develop the Centre of Excellence over the next year, leading up to the 2014 World Congress of Accountants. We envisage that the direction and pace of travel will be determined through a process of collaboration with other PAOs, which we are initiating during the next few months.

We are also looking to enter into, or strengthen, relationships between our institute and yours, within which we can collaborate in a number of ways, from resource sharing to mutual recognition arrangements. We are looking to provide a concrete and accessible response to the position expressed in the recent released MOSAIC PAO Global Development Report, which stated:

'Although some PAOs maintain a strong public sector membership and undertake services and activities to support public sector accountancy and financial management, many PAOs struggle to identify how they can support this area.'

making it happen

We cannot continue to allow public financial management to be neglected in so many jurisdictions. The price is simply too high. The global profession must act in unison to try to create more pressure for urgent reforms. And it must be ready to play its part to lead, manage and deliver many of the necessary changes across governments and in constituent public sector organisations.

CIPFA's proposal to collaborate with other PAOs, drawing on its expertise and resources in public sector accounting and

financial management, provides a real, practical way forward. It brings PAOs together and creates win: win incentives for them to work together to deliver the right outcomes for the public interest. It is also a path to bring professional accountants in the public sector together, enabling them to access the best possible services and to share their ideas and experiences in a single community dedicated to raising the game in public financial management.



I hope that my counterparts in other PAOs will give very serious consideration to our invitation to build collaboration. Together we can support the profession in forcing the pace of change.

Please contact me, at

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Rob Whiteman was appointed as CIPFA's Chief Executive in July 2013, taking up the post in the October.

He joined CIPFA following a successful career as a finance director and chief executive in UK central and local government and most recently as Chief Executive of the UK Border Agency where he was the Accounting Officer to the UK Parliament for £2bn expenditure and 25,000 staff with responsibilities including the overseas visa network, regulation of employers and academic bodies as sponsors, and the law enforcement of the UK's immigration system.

A handwritten signature in black ink that reads "Rob Whiteman". The signature is stylized and cursive.

Rob Whiteman
Chief Executive



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