

# Delivering Excellent Public Finance: CIPFA's Whole System Approach to Public Financial Management

Volume 2: Supporting Material

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## Foreword

This second volume contains an array of supporting material in support of the Delivering Excellent Public Finance: CIPFA's Whole System Approach to PFM document. Chapter 1 provides more detail about the PFM Elements and Sub-Elements. Chapter 5 goes on to focus on the role of PFM in strengthening service delivery. And finally chapter 6 supports the mapping of the organisational architecture with descriptions of key constituent organisations.

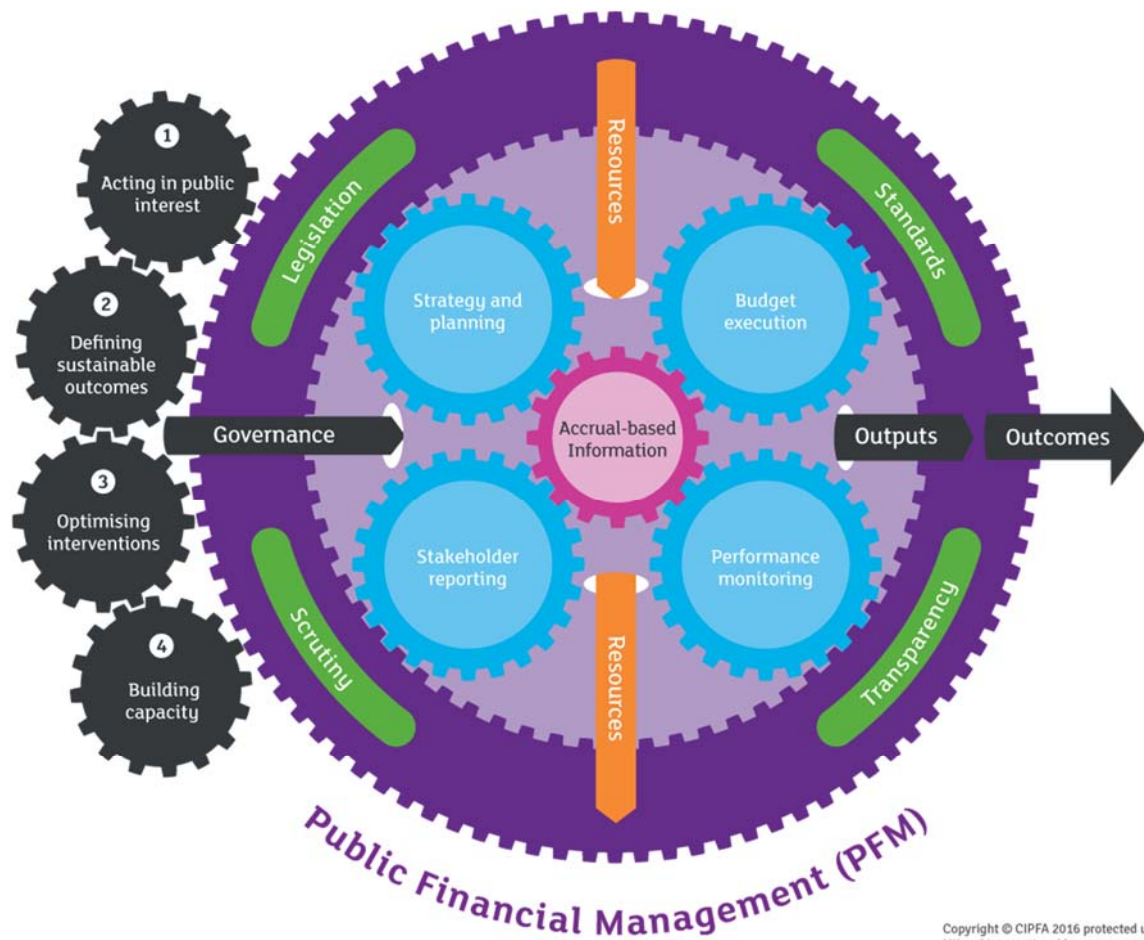
This volume should be read as a supporting companion to Volume 1: The Approach.

Key definitions are included in the glossary along with a list of abbreviations used.

## The PFM Elements and Sub-Elements

- 1.1 The Delivering Excellent Public Finance model provides an overview of the components of a fully functional PFM system, distinguishing a number of different elements, pictured in the chart below, which are then described in summary below. Each of these elements needs to be developed to its full potential, but equally none is sufficient without the others.

### Delivering Excellent Public Finance





- 1.2 The system is described in progressive levels of detail<sup>1</sup>:
- PFM Elements: a grouping of PFM processes, each of which performs a different function in the overall PFM architecture.
  - PFM Sub-elements: the high level processes that deliver each element, which are listed below under each element, and explained in more detail here.
- 1.3 This system constitutes a generic model, not a description of an actual country's arrangements. CIPFA recognises that countries will bring to bear their own legal structures and administrative and cultural traditions, and that PFM will be mediated through local circumstances and capacities. It also recognises that the quality of implementation may be as important as the process itself in determining effectiveness. However, an understanding of the whole picture of PFM processes is essential in planning interventions and improvements. In particular, lack of technical understanding and practitioner experience in the donor community of what PFM involves can undermine donor strategies for improving aid effectiveness and its legacy impact. Reforms are at risk therefore of underperforming in terms of speed, effectiveness, quality and sustainability.
- 1.4 The PFM Elements comprise three groups:
- Governance (G);
  - External Elements (E); a
  - Internal Elements (I)

Maximising the impact of each element depends on the Resources available to the entity, and fundamentally on the availability of Accrual-based information.

## Governance Elements (G)

- 1.5 The Governance Elements are drawn directly from the International Framework: Good Governance in the Public Sector:
- Acting in the public interest (G1)
  - Defining sustainable outcomes (G2)
  - Optimising interventions (G3)
  - Building capacity (G4)

### G1) Acting in the public interest

- 1.6 To deliver good governance in the public sector, both governing bodies and individuals working for public sector entities must try to achieve their entity's objectives while acting in the public interest at all times. This means behaving with integrity and demonstrating strong commitment to ethical values, as well as respecting the rule of law. An entity needs to ensure openness and comprehensive stakeholder engagement.

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<sup>1</sup> CIPFA's 2009 consultation showed broad consensus about the components of the model, although the model does now reflect some detailed amendments suggested by commentators.

- 1.7 **G1.1 Integrity and ethics:** The governing body of a public sector entity should ensure that appropriate policies are in place so that members and staff take decisions objectively and steps are taken to avoid or deal with any conflicts of interest, whether actual or perceived. Acting with integrity requires holders of public office to avoid placing themselves under any obligation to people or organisations that might try inappropriately to influence them in their work. They should not act or take decisions to gain financial or other material benefits for themselves, their family, or their friends. They must declare and resolve any such interests and relationships. Ethical values should permeate all the entity's activities – including recruitment, procurement, and the use of public funds.
- 1.8 **G1.2 Respect for law:** Legal frameworks are established within jurisdictions to build and maintain a society in which all are afforded legal protection in respect of rights and responsibilities. Legal frameworks help guard against corruption and other crimes and unethical behaviour. Governing bodies of public sector entities should ensure they and their staff respect the rule of law.
- 1.9 **G1.3 Stakeholder engagement:** Stakeholder engagement is not just about public access to information but the active involvement of service users, stakeholders and partners in decisions about budgets, services, resource allocation and taxes. Public sector entities require clear, trusted channels of communication to engage effectively with all groups of stakeholders. All stakeholders, including service users, must be able to feedback and influence the way the entity uses public funds and the services it provides. Communication and consultation methods should be balanced and fair. An entity's evaluation processes should enable the interests of more vocal stakeholder groups to be balanced with other stakeholders' interests to ensure that no one group becomes too dominant.

## G2) Defining sustainable outcomes

- 1.10 The long-term nature and impact of many of the public sector's responsibilities mean that it should define and plan outcomes and that these should be sustainable. All decisions should further the entity's purpose, contribute to intended benefits and outcomes, and remain within the limits of authority and resources. Public sector entities need to consider (individually and collectively) the combined economic, social, and environmental impacts of their policies, plans, and decisions. In 2015, over 150 countries signed the Sustainable Development Goals (SDGs), officially known as 'Transforming our world: the 2030 Agenda for Sustainable Development'. This set of 17 "Global Goals" is a universal call to action for all stakeholders, including governments, to embed sustainability principles and practices in their operations so that individually and collectively sustainable outcomes are achieved.
- 1.11 **G2.1 Economic:** Resources are finite, with the result that there are constraints on both what an entity can plan to achieve and its actual performance in the medium to long term. A public sector entity needs to integrate its business and medium-term financial planning so that it aligns resources to meet current and future business objectives and priorities.
- 1.12 **G2.2 Social:** Social outcomes are outcomes that relate directly to society and societal gain, rather than purely a financial return. Public sector entities need, for example, to take demographic factors into account when making decisions that have longer term impacts on communities.

1.13 **G2.3 Environmental:** Environmental outcomes are those outcomes that have a direct impact on the environment. Public sector entities need to consider the impact of proposed policies on, for example, land use, transportation, housing, pollution and the landscape, as well as the impact of environmental factors such as climate change when consulting on and developing policies.

### G3) Optimising interventions

1.14 An entity identifies a need and decides on a strategy for dealing with it. This is called an 'intervention'. The public sector achieves its intended outcomes by providing a mixture of interventions, such as enacting legislation or regulations; delivering goods or services; or through income redistribution mechanisms (social security payments and taxation). Interventions are financed through taxes, transfers, other forms of income (fees and charges), and borrowing. Determining the right mix is critically important for entities. An objective and rigorous analysis of a variety of options is needed, including any projected risks and results and an indication of how the proposed intervention would contribute to the achievement of outcomes.

1.15 **G3.1 Taxes and transfers:** Governments and public sector entities derive the majority of their revenue from taxes and transfers from other levels of government. Governments regularly make decisions about levels of taxation in relation to levels of public expenditure across the wide range of governmental responsibilities. Resource allocations among different levels of government and individual public sector entities are determined in many ways, depending on both constitutional arrangements and institutional structures. These frequently include transfers of resources from one level of government to another.

1.16 **G3.2 Services:** Public sector services cover a wide range of activities including education, health, social care, culture and leisure, all of which should be focused on user needs – which often differ from users' 'wants'. Services provided to the public will vary between jurisdictions, but all public administrations should deliver those services effectively and efficiently. They can achieve this by ensuring that they use the right delivery models, including the correct balance of capital investment and revenue expenditure. They should also consider the balance between providing services using internal resources, and using external partners, such as other public sector, private sector, or not-for-profit organisations.

1.17 **G3.3 Regulation:** Legislation empowers the delivery of outcomes in the public sector. Regulation may be used as a means of ensuring, or restricting, access to public services or to deliver policy objectives directly. Regulations can take many forms and different jurisdictions will set out regulations in different ways to contribute to achieving their intended outcomes. It might take the form of:

- secondary legislation, which has to be authorised by the legislature
- regulations issued by a Minister
- local laws
- policy, procedure and process manuals that inform service users and providers of rights and responsibilities related to particular services.

## G4) Building capacity

- 1.18 Strong public financial management requires an entity to have the necessary capacity. This means the entity must have the appropriate structures, leadership, and staff in place, as well as strategies and resources for addressing existing gaps, and filling those that emerge over time. Building an entity's capacity to help secure the highest standards of PFM requires external as well as internal input. External input is important because it can be more objective in its assessment of an entity's current performance and can assist in developing strategies for improvement. Internally, capacity building involves putting in place, and applying, policies and procedures that will build the entity's overall capacity for good PFM and develop its leadership and individuals.
- 1.19 **G4.1 Developing an entity's capacity:** Public sector entities need appropriate structures and leadership, as well as people with the right skills, qualifications and mind-set, to operate efficiently and effectively. The governing body must ensure that it has both the capacity to fulfil its own mandate and that management has the operational capacity for the entity as a whole. Individuals and the environment in which an entity operates will change over time, there will be a continuous need to develop the entity's capacity as well as the skills and experience of the leadership of individual staff members. Leadership in public sector entities are strengthened by involving people from different backgrounds, reflecting the structure and diversity of their communities.
- 1.20 **G4.2 Developing an entity's leadership:** All members of the governing body of a public sector entity should have the appropriate skills and knowledge to exercise leadership and to fulfil their roles and responsibilities. All members of the governing body should receive appropriate introductory training tailored to their role and opportunities to develop their skills further. But leadership is not exercised by only those at the top of the organisation. As part of their development policies, public sector entities should ensure that managers receive the right financial training and that all staff understand their responsibilities in relation to public financial management. For public financial management concepts and practices to permeate the organisation, its managers need to take responsibility for, and possess the right skills to take the lead in their own areas.
- 1.21 **G4.3 Role of CFO / professional finance skills:** The chief financial officer (CFO) must be a key member of the leadership team, helping it to develop and implement strategy and to resource and deliver the entity's strategic objectives sustainably and in the public interest. The CFO must be actively involved in, and able to bring influence to bear on, all material business decisions. They should ensure immediate and longer term implications, opportunities and risks are fully considered, and are aligned with the entity's financial strategy. Their involvement must lead to the promotion and delivery by the whole organisation of good PFM. The CFO and professional finance staff set the tone for leadership and individuals throughout the organisation in delivering their responsibilities for PFM.
- 1.22 **G4.4 Developing capability of individuals:** PFM professionals must carry out their duties to the high standard of the profession. Consequently they must maintain, develop and enhance skills, knowledge and competences to maintain or improve their performance. Changes in the environment and the public sector entities often lead to upskilling or retooling of PFM professionals. Therefore entities'

staff development policies and practices, need to ensure that all public servants have the capacity to fulfil their roles in delivering PFM.

- 1.23 **G4.5 Recruitment retention and reward:** Attracting and retaining quality staff can be a challenge for public sector entities, as working in the public sector is sometimes perceived as less attractive in terms of financial reward and career progression when compared to other sectors. Creating attractive benefits, personal development opportunities, and for potential career progression should be key considerations for building an engaged and competent work force.

## External PFM Elements (E)

- 1.24 PFM is influenced by, and implemented through both internal and external elements. A public sector entity's operations are heavily influenced by the external PFM elements which comprise:

- Legislation (E1)
- Standards (E2)
- Ensuring transparency (E3)
- Scrutiny (E4)

### E1) Legislation

- 1.25 Legal authority for public sector operations is important. In terms of PFM, legislation covers a range of activities, including:

- tax raising powers
- budget law
- approved service expenditure
- accounting, auditing and reporting requirements.

Some jurisdictions also have specific legislation relating to PFM requirements. Legislation can take different forms. It might be primary or secondary legislation passed by a Parliament, but also it can take the form of decrees or charters, or regulations issued by an authorised person. Legislation might provide general powers to a government or individual public sector entity or it might place specific responsibilities and accountabilities on an entity to deliver clearly defined services to the public.

- 1.26 **E1.1 Primary legislation:** Primary legislation is a form of law created by the legislative branch of government. Primary legislation may consist of statutes that set out broad outlines and principles, delegating authority to an executive branch – such as a public sector entity.
- 1.27 **E1.2 Secondary legislation:** Secondary legislation is subordinate law made by an executive branch within the boundaries laid down by the primary legislature. Secondary legislation has the same legal force as primary legislation. The powers to make secondary legislative are usually conferred or delegated to ministers or public entities.

### E2) Standards

- 1.28 To achieve the highest levels of PFM, the public sector needs to demonstrate that it is governed by standards that cover ethical behaviour, human resource management, procurement, internal controls, accounting and auditing.

Increasingly, governments are turning to internationally developed standards that have been drawn up by independent experts in their fields. The use of international standards promotes consistency and comparability and facilitates the exchange of experience and practice across jurisdictions. Adoption could be through legislation or policy and this will depend on the particular jurisdiction.

- 1.29 **E2.1 Public procurement:** Strong public procurement practice requires a sound policy making and regulatory framework, and institutional structures and arrangements that ensure procurement functions effectively. Standards in public procurement should focus on the transparency of procurement arrangements, emphasise the need for open and competitive procedures, the monitoring of procurement results, and provide access to appeal and redress arrangements. To address the risk of corruption, it is essential that the public procurement processes also place emphasis on ethical values and accountability.
- 1.30 **E2.2 Public sector accounting standards:** Most jurisdictions will prescribe the standards that public sector entities should apply in preparing their financial statements. Accounting standards help to ensure consistency and comparability between public sector entities within a jurisdiction and, where international standards are applied, across jurisdictions. The use of accounting standards improves the reliability of financial information.
- 1.31 **E2.3 Public sector auditing standards:** Most jurisdictions establish overall external audit arrangements for public sector entities through legislation, including the remit of the Supreme Audit Institution. It is less usual for a jurisdiction to prescribe through legislation the more detailed standards that the auditors should follow in carrying out their work. Many Supreme Audit Institutions apply international auditing standards that have been adapted to meet specific constitutional requirements in their jurisdiction. These may be based on 'ISAs' developed by the International Assurance and Auditing Standards Board' for private sector audits, or on 'ISSAIs' developed by INTOSAI, which provide detailed guidance on public sector audit.

### E3) Transparency

- 1.32 Transparency in the public sector is defined by CIPFA as 'openness about the outcomes a public service entity is pursuing, the resources necessary or used, and the performance achieved'. Transparency is necessary to ensure that public sector entities deliver effective public accountability. Transparency is closely linked with Scrutiny and you need to look at both sections to understand how public sector entities are accountable to their stakeholders. Governments consider what routes they're going to take to optimise achievement of outcomes. They need to consider how resources (inputs) are used, and report progress against delivery targets. To ensure transparency, reporting units should ensure service delivery aligns appropriately so that information supports external accountability and scrutiny.
- 1.33 **E3.1 Reporting units:** An individual public sector entity for which discrete financial (and non-financial) information is available and used by management to assess performance.



- 1.34 **E3.2 Budget coverage consistency and comparability:** Different jurisdictions, and types of organisations within these, deal with budget preparation and approval in different ways. In many jurisdictions, the publication of the Government's fiscal and budgetary plans generates a lot of interest: in the legislature, amongst economists, in the media, and individually as citizens think about the impact of a government's proposals on their own circumstances. There can be similar interest in the budget for individual reporting units.

## E4) Scrutiny

- 1.35 External scrutiny of public sector activities takes many forms, ranging from informal to formal. Formal scrutiny generally takes the form of:

- the legislature holding the executive to account through parliamentary debate or the establishment of parliamentary committees (such as a Public Accounts Committee) that question public officials about service delivery and financial matters in relation to their entities
- financial audit by the Supreme Audit Institution
- performance audit by the Supreme Audit Institution.

Other forms of scrutiny, such as the media, public consultations, and scrutiny by other independent experts, are also important for the highest standards of PFM.

- 1.36 **E4.1 Budget:** Many jurisdictions have an Organic Budget Law that sets out the requirements for scrutiny by the legislature, debates and approval of the annual budget within a timeframe laid out in legislation. The Budget Law will also generally define the key contents of the budget documentation, and the powers and responsibilities of the executive and legislature in the budget process. There are generally similar requirements for other types of public sector organisations.
- 1.37 **E4.2 Outturn:** Accountability of the public sector to stakeholders is strengthened where there are legislative requirements for scrutiny of annual financial reports. For central or federal government bodies, these might be discussed by the Public Accounts Committee or other relevant legislature committees. Such scrutiny is enhanced if the annual financial reports are accompanied by the report of the Supreme Audit Institution that set out any recommendations the auditor has made for improvements in PFM. Scrutiny of outturn should also provide for the follow-up of recommendations made by the auditor in previous years. There should be similar requirements for other types of public sector organisations.
- 1.38 **E4.3 Financial audit:** The provision of assurance through external audit, performed by a supreme or state audit institution or an external audit firm, is an essential element of a public sector entity's accountability. External audit involves analytical review, systems evaluation, compliance, and substantive testing. In particular, an audit opinion is given on the adequacy of the entity's financial statements and on whether they have been prepared in accordance with legal requirements and a recognised reporting framework and fairly reflect an entity's performance and position.
- 1.39 **E4.4 Performance audit:** Some supreme or state audit institutions or audit firms carry out performance audits (also known as value for money audits, or audits of economy, efficiency and effectiveness). Performance audit refers to an independent examination of a program, function, operation or the management systems and procedures of a public sector entity to assess whether the entity is achieving economy, efficiency and effectiveness in the use of available resources.

- 1.40 **E4.5 Public challenge mechanisms:** The public should have a legal right to access public information. They should also have a legal right to make reasonable challenges of a public sector entity's actions through properly established mechanisms. These might include a system of Ombudsmen who are legally required to investigate, impartially, any complaint made by:
- a member of the public
  - a 'whistle-blower'
  - the right to petition
  - judicial review.
- 1.41 **E4.6 Other independent scrutiny:** Public sector entities are subject to scrutiny by individuals and organisations with specialist knowledge – both externally and internally – as well as by the press and general public. For example, in some jurisdictions, the central statistical office will scrutinise statistical data issued by a public sector entity to ensure that it is meaningful in the context in which it has been issued. In others, independent valuers may assess the value of a public sector entity's asset holdings. Internally, a public sector entity may have an audit committee, comprising external experts, that oversees the work of the internal audit function and questions the entity's leadership about risk management.

## Internal PFM Elements (I)

- 1.42 Public financial management is influenced by, and implemented through internal and external elements. A public sector entity's operations are heavily influenced by the external PFM elements which can also affect the operation of the 'internal elements'. The internal PFM elements comprise:
- Strategy and planning (I1)
  - Budget execution (I2)
  - Performance monitoring (I3)
  - Stakeholder reporting (I4)

### I1) Strategy and Planning

- 1.43 A fiscal strategy enables a government to articulate its fiscal policy objectives to stakeholders, including legislature and the public. It includes specific quantitative and qualitative organisational targets and constraints. In turn, individual public sector entities need to use their overall targets and budgets to inform the development of their own strategies for delivering agreed outputs and achieving outcomes. Annual plans should underpin medium-term strategies and should be supported by delivery plans, including targets and indicators. They should also include mechanisms for monitoring performance in terms of service delivery, finances, risk management and value for money.
- 1.44 **I1.1 Strategic vision:** A public sector entity needs an over-arching strategic vision of how it intends to deliver outputs and achieve outcomes for which it is responsible. This might be included in a statement that sets out both the vision and the underlying entity mission, together with the mix of interventions that the entity will adopt in delivering services to achieve the intended outcomes.
- 1.45 **I1.2 Medium term financial strategy:** The aim of a medium term financial strategy (MTFS) is to pull together one place all known factors affecting the



financial position and financial sustainability of an entity over the medium term. The MTFS balances the financial implications of objectives and policies against constraints in resources and provides the basis for decision making. The strategy should be a living document that forms the basis of fiscal strategy for public bodies. The timescale for the MTFS will be dependent upon the environment in which the entity exists and the level of infrastructure investment it makes.

- 1.46 **I 1.3 Annual planning:** The annual planning process is the mechanism by which a public sector entity develops, discusses and agrees its plans. The annual plan should be developed in the context of the entity's strategic vision and its medium-term financial strategy and other plans. It will cover service delivery and costs of delivery. Good practice suggests that the component plans should be prepared by those who will be accountable for delivery against the plans before they are aggregated for discussion and overall approval by the entity's leadership.
- 1.47 **I 1.4 Risk management:** Risk management is an important and integral part of a performance management system, and is crucial to the entity's achievement of its intended outcomes. It consists of an ongoing process designed to identify and address significant risks involved in achieving these outcomes.

## I2) Budget execution

- 1.48 Budget execution is the process by which resources made available to a public sector entity are controlled and used in delivering approved policy objectives. Increasingly, budget execution is being interpreted to encompass not only financial resources, but also human resources, and infrastructure (the use of an entity's asset base to deliver policy objectives). Budget execution includes:
- reviewing the achievement of targets
  - performance reports and other indicators
  - controls around spending and service delivery.
- 1.49 12.1 Targets and indicators: Public sector entities should set input and output measures and outcome indicators in order to measure their service performance and efficiency. These should cover economic, social and environmental factors and be clearly set out in the entity's plans. Delivery should be monitored throughout the year against appropriate output measures and outcome indicators. Performance against indicators should be regularly evaluated and lessons learned incorporated into the planning for future activities where appropriate.
- 1.50 12.2 Internal controls: Internal control systems are established by a public sector entity's leadership team to help ensure that the entity achieves its policy and service objectives in a manner that promotes economy, efficiency and effectiveness in the use of resources. Internal control systems help safeguard the entity's assets by managing risk and reducing the likelihood of fraud. In establishing such systems, an entity needs to take account of the risks to good PFM.
- 1.51 12.3 Budget execution reports: Budget execution reports monitor expenditure figures against budget allocated and are normally a way of reporting to the finance ministry to assist in overall fiscal management. They classify information in ways that make clear the use of public resources. The data included in budget execution reports are also important for in-year management scrutiny of delivery and shape

the wider budget execution monitoring through management reporting. Best practice is to monitor balance sheet data as well as income and expenditure.

### I3) Performance monitoring

1.52 Public sector entities should ensure that they have effective mechanisms to monitor their performance throughout the planning, specification, and execution of deliverables, as well as for any independent post-implementation review. This is essential whatever delivery model they have adopted. Meaningful financial analysis and robust interpretation of results are key components in performance management. Performance monitoring should consider whether:

- the intended outcomes are still valid or need to be adapted to take account of new or changed circumstances
- their service delivery activities can still effectively and efficiently achieve those outcomes
- there are any changes in the internal or external environment (the context) that might pose risks, positive or negative, to achieving the outcomes and that therefore need to be managed.

1.53 **I3.1 Managing for results:** Managing for results is about:

- identifying the needs the public sector entity is trying to address
- developing an overall plan, policies and services for addressing those needs
- implementing the necessary management systems to support delivery
- monitoring cost and performance data that allow the entity to assess progress in reaching its goals and objectives
- using that performance data to make any necessary changes to the plan.

In managing for results entities should consider the role of partners including those in the public, private and not-for-profit sectors.

1.54 **I3.2 In-year/management reporting:** Management reporting is an internal process. It provides a public sector entity's leadership and management with timely, accurate and relevant information that is designed to assist in the strategic and operational management of the entity. Building on the data included in budget execution reports, in-year management reporting will consider delivery in terms of targets and indicators and examine the links between deliverables and associated expenditure.

1.55 **I3.3 Internal audit:** Internal audit is an independent, objective assurance and consulting activity designed to add value and improve an entity's operations. It aims to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight. It helps an entity deliver its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes – all of which are an essential to strong PFM.

### I4) Stakeholder reporting

1.56 Public sector entities are publicly accountable to their stakeholders for the use of their resources and how effectively these have been used. Accountability is about ensuring that those making decisions and delivering services are answerable for them, although the range and strength of different accountability relationships

varies for different types of public sector entities and stakeholders. Effective accountability is concerned not only with reporting on actions completed, but also ensuring that stakeholders are able to understand and respond as the entity plans and carries out its activities in a transparent manner.

- 1.57 Public sector entities need to demonstrate to stakeholders that they have delivered their stated commitments, requirements, and priorities and have used public resources effectively in doing so. To that end, they need to report publicly at least annually in a timely manner, so that stakeholders can understand and make judgments on issues such as how the entity is performing, whether it is delivering value for money, and the soundness of its stewardship of resources.
- 1.58 **14.1 Financial reporting:** Financial reporting is an external process and is a key part of accountability to stakeholders. How public sector entities are required to report externally differs between jurisdictions. All the frameworks referenced in this document take the view that better information is provided where the reports are on an accrual basis and prepared using either international accounting standards or national standards that are based closely on international standards.
- 1.59 The accounting basis for the financial reports also differs, with some jurisdictions reporting on a cash basis and others on an accrual basis. Some require each public entity to produce its own annual financial reports while others produce consolidated financial reports for sections of the public sector or for the whole of government. There are other reporting frameworks which complement public sector financial reporting such as Integrated Reporting.

## Resources (R)

- 1.60 Public sector entities depend on a variety of resources and relationships for their success. These resources and relationships can be regarded as forms of capital that flow into, through and out of each public sector entity. An entity's input works through the system and is converted into outputs/outcomes.
- 1.61 The Integrated Reporting (<IR>) Framework categorises six types of capital assets. Interpreted for the public sector context, these are more appropriately termed 'Resources'. The six types of resources are financial, infrastructure, human, social and relationship and natural. These six types of resources, whether belonging to an entity itself, to other entities, or to society more broadly, provide the inputs needed to achieve that entity's outcomes.
- 1.62 They are increased, decreased or transformed through the activities of the organisation in that they are enhanced, consumed, modified or otherwise affected by those activities. For example, an organisation's financial resources are increased when it makes a surplus/profit and its human resources are increased when employees become better trained. Not all resource types are equally relevant or applicable to all organisations.
- 1.63 **R1 Financial:** Financial resources comprise the pool of funds available to a public sector entity for use in the provision of services which are obtained through financing, such as debt, tax or grants, or generated through operations or investments such as fees.
- 1.64 **R2 Infrastructure:** Infrastructure resources encompass physical objects an entity uses in the provision of services, or the production of goods. This includes buildings

(such as schools, hospitals and offices), equipment and infrastructure (such as roads, ports, bridges, and waste and water treatment plants). Such assets are often created by other organisations, but include those created by the reporting entity when they are retained for its own use.

- 1.65 **R3 Intellectual:** Intellectual resources are ones that are not physical in nature and include intellectual property (such as patents, copyrights, software, rights and licenses), and 'organisational capital' such as tacit knowledge, systems, procedures and protocols.
- 1.66 **R4 Human:** Human resources include people's competencies, capabilities and experience. For an entity to operate effectively it needs people with the right skills who understand the entity's approach, aims and ethical values. Human resources encompasses people's ability to understand, develop and work with an entity's strategy and motivations for improving processes, goods and services.
- 1.67 **R5 Social and relationship:** Social and relationship resources encompass the relationships within and between communities, groups of stakeholders and other networks, and the ability to share information to enhance individual and collective wellbeing. Social and relationship capital include shared norms, common values and behaviours, key stakeholder relationships, and the willingness to engage that an entity has developed. They also include intangibles associated with the brand and reputation that an entity has developed, and its agreed remit and/or regulatory license to operate.
- 1.68 **R6 Natural:** Natural resources include all renewable and non-renewable environmental resources and processes that provide services or goods that support the past, current or future prosperity of an entity. They include air, water, land, minerals and forests, along with biodiversity and eco-system health.

## Accrual-based Information (A)

- 1.69 Accrual accounting reports the economic substance of transactions at the time they are entered into rather than when the related cash inflows or outflows occur. Accrual based information:
- is useful in evaluating an entity's performance in terms of its service costs, efficiency, and accomplishments
  - provides an entity with the opportunity to demonstrate successful management of its resources
  - shows how an entity is financing its activities and meeting its cash requirements
  - shows the current financial position of an entity and any subsequent change.
- 1.70 **A.1 Financial Information systems:** Financial and management information systems can improve governance by providing real-time financial information that the entity's financial and other managers can use to formulate budgets and plan services, and manage the entity's resources and activities effectively. Sound Integrated Financial Management Information Systems (IFMIS), not only help governments and individual public sector entities control their finances effectively, but also enhance transparency and accountability, reducing political discretion and acting as a deterrent to corruption and fraud.

# DEPF: Comparison against other frameworks

## Approach to DEPF framework development

- 2.1 In updating its Whole System Approach, CIPFA has compared its approach with those in the latest versions of the following well-established frameworks and guidance:
- IMF Fiscal Transparency Code;
  - Public Expenditure Financial Accountability (PEFA); and
  - SIGMA: The principles of public administration.
- 2.2 The following table compares the updated model against these frameworks, as well as the original Whole System Approach, and the updated version of CIPFA's own FM Model. In making these comparisons a number of gaps in the available standards and guidance have been identified, where CIPFA would aim to work with others to ensure they are addressed.

**Comparison of Whole System Approach (2) content against Whole System Approach (1), the IMF Fiscal Transparency Code, the Public Expenditure and Financial Accountability Framework, SIGMA: The Principles of Public Administration, and the CIPFA FM Model (version 4)**

Whole System Approach (2)		Whole System Approach (1) Annex A	IMF Fiscal Transparency Code Annex B	PEFA Annex C	SIGMA: The Principles of Public Administration Annex D	CIPFA FM Model (v4) Annex E
<b>GOVERNANCE (G)</b>						
<b>Acting in the public interest (G1)</b>						
G1.1	Integrity and ethics	S1, S2, S3	<i>Not covered</i>	<i>Not covered</i>	Professionalism of public service is ensured by good managerial standards and human resource management practices ( <i>in part</i> )	S1
G1.2	Respect for law	<i>Not covered</i>	<i>Not covered</i>	<i>Not covered</i>	<i>Not covered explicitly, but several references to legal frameworks</i>	<i>Not covered</i>
G1.3	Stakeholder engagement	L5, SC2, SC3, LG10	2.3.3	<i>Not covered</i>	Inclusive, evidence-based policy and legislative development enables the achievement of intended policy objectives ( <i>in part</i> )	S3
<b>Defining Sustainable Outcomes (G2)</b>						
G2.1	Economic	SP2, SP5, LG8	2.3.1 [Pillar IV?]	<i>Not covered</i>	Policy planning is harmonised, aligned with the Government's financial circumstances and ensures the Government is able to achieve its objectives ( <i>part</i> )	L3, L4
G2.2	Social	<i>Partially covered in Chapter 3 on the budget sub-system</i>				
G2.3	Environmental					
<b>Optimising interventions (G3)</b>						
<b>Taxes and Transfers (G3.1)</b>						
G3.1.1	Taxes	SP1, O4, O5	1.1.4, 2.1.1, [Pillar IV?]	PI-20, PI-21	<i>Not covered</i>	<i>Not covered</i>

<b>Whole System Approach (2)</b>		<b>Whole System Approach (1)</b> Annex A	<b>IMF Fiscal Transparency Code</b> Annex B	<b>PEFA Annex C</b>	<b>SIGMA: The Principles of Public Administration</b> Annex D	<b>CIPFA FM Model (v4)</b> Annex E
G3.1.2	Transfers	<i>Not covered</i>	<i>Not covered</i>	<i>Not covered</i>	<i>Not covered</i>	<i>Not covered</i>

<b>Services (G3.2)</b>						
G3.2.1	Delivery models / Business partners	O2, MC9 ( <i>but needs more</i> )	<i>Not covered</i>	<i>Not covered</i>	Administration is citizen-oriented; the quality and accessibility of public services is ensured ( <i>in part</i> )	<i>Not covered</i>
G3.2.2	Public asset management	<i>Not covered</i>	<i>Not covered</i>	PI-12	<i>Not covered</i>	<i>Not covered</i>
G3.2.3	Institutions	Chapter 5 looks at the organisational architecture; could be referenced here.	<i>Not covered</i>	<i>Not covered</i>	Centre of government institutions fulfil all functions critical to a well-organised, consistent and competent policy making system ( <i>in part</i> )	<i>Not covered</i>
<b>Regulation (G3.3)</b>						
G3.3.1	The role of regulation in public service delivery	<i>Not covered</i>	<i>Not covered</i>	<i>Not covered</i>	<i>Not covered</i>	<i>Not covered</i>
<b>Building capacity (G4)</b>						
G4.1	Developing an entity's capacity	LG3	<i>Not covered</i>	<i>Not covered</i>	Professionalism of public service is ensured by good managerial standards and human resource management practices ( <i>in part</i> )	P1, P6, PR15
G4.2	Developing an entity's leadership	LG1, LG2, LG4, LG6, LG7	<i>Not covered</i>	<i>Not covered</i>		P3
G4.3	Role of CFO/ Professional finance skills	S7, LG2, LG5	<i>Not covered</i>	<i>Not covered</i>		P2, P4, P5
G4.4	Developing capability of individuals	LG9	<i>Not covered</i>	<i>Not covered</i>		<i>Not covered</i>
G4.5	Recruitment, retention and reward	(?LG9)	<i>Not covered</i>	<i>Not covered</i>		P5



EXTERNAL PFM ELEMENTS (E)						
<b>Legislation (E1)</b>						
E1.1	Primary legislation	L1, L2, L3	2.2.1	<i>Not covered</i>	Government decisions and legislation are transparent, legally compliant and accessible to the public; the work of the Government is scrutinised by the Parliament	<i>Not covered</i>
E1.2	Secondary legislation	<i>Not covered</i>				
<b>Standards (E2)</b>						
E2.1	Public procurement	MC8	3.2.4, [Pillar IV?]	PI-24	<p>Public procurement is regulated by duly enforced policies and procedures that reflect the principles of the Treaty on the functioning of the European Union and the European Union acquis, and are supported by suitably competent and adequately resourced institutions</p> <p>In case of alleged breaches of procurement rules, aggrieved parties have access to justice through an independent, transparent, effective and efficient remedies system</p> <p>Contracting authorities are adequately staffed and resourced and carry out their work in accordance with applicable regulations and recognised good practice, interacting with an open and competitive supply market</p>	PR13
E2.2	Public sector accounting standards	L4, S4	1.1.2, 1.1.3	PI-29	<i>Not covered</i>	<i>Not covered</i>

E2.3	Public sector auditing standards	L4, S5	<i>Not covered</i>	PI-30	The constitutional and legal framework guarantees the independence, mandate and organisation of the Supreme Audit Institution to perform its mandate autonomously according to the standards applied for its audit work, allowing for high-quality audits that impact on public sector functioning	<i>Not covered</i>
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<b>Transparency (E3)</b>						
E3.1	Reporting units	<i>Not covered</i>	<i>Not covered (assumption is that reporting is at whole of government level)</i>	<i>Not covered (assumption is that PEFA analysis is carried out at Ministry of Finance level)</i>	Proper mechanisms are in place to ensure accountability of state administration bodies, including liability and transparency	<i>Not covered (assumption is that FM Model assessment is for a single entity)</i>
E3.2	Budget coverage, consistency and comparability	S6, SP6	1.3.1	PI-4, PI-5	The Budget is formulated in line with the national legal framework, with comprehensive spending appropriations that are consistent with the medium-term budgetary framework and are observed.	PR7, PR8
<b>Scrutiny (E4)</b>						
E4.1	Budget	SC1	2.2.2, 2.4.2	PI-17, PI-18	The Budget is formulated in compliance with transparent legal provisions and within an overall multi-annual framework, ensuring that the general government budget balance and the debt-to-gross domestic product ratio are on a sustainable path	<i>Not covered</i>
E4.2	Outturn	SC1?	<i>Not covered</i>	PI-31	Accounting and reporting practices ensure transparency and public scrutiny over public finances; both cash and debt are managed centrally, in line with legal provisions	<i>Not covered</i>
E4.3	Financial audit	A2	1.4.2	PI-30	The constitutional and legal framework guarantees the independence, mandate and organisation of the Supreme Audit Institution to perform its mandate autonomously according to the standards applied for its audit work, allowing for high-quality audits that impact on public sector functioning	<i>Not covered</i>
E4.4	Performance audit	SC1?	<i>Not covered</i>	PI-8	<i>Not covered</i>	<i>Not covered</i>

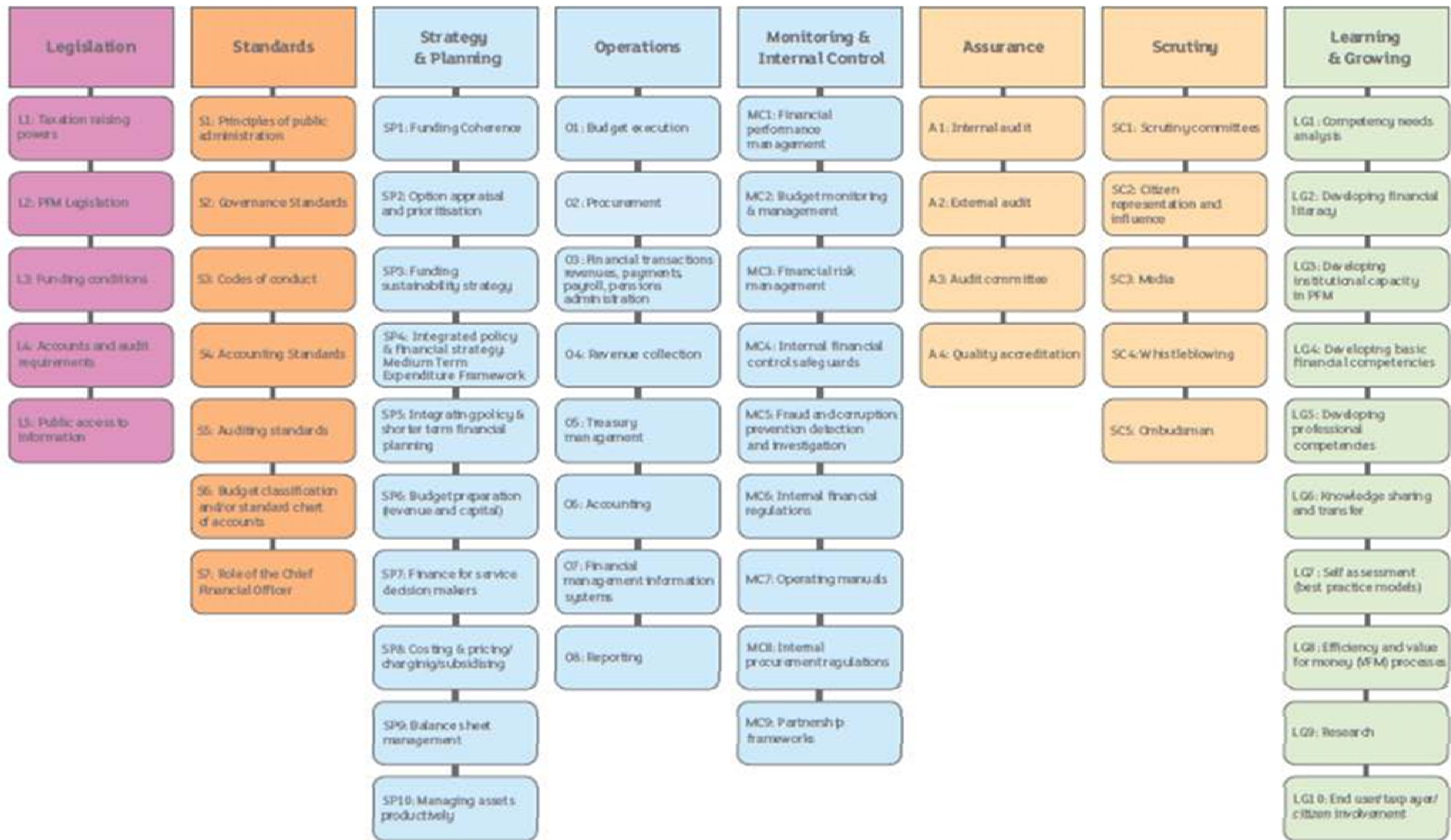
E4.5	Public challenge mechanisms	SC4, SC5	<i>Not covered</i>	PI-24	Proper mechanisms are in place to ensure accountability of state administration bodies, including liability and transparency	<i>Not covered</i>
E4.6	Other independent scrutiny	A3, A4	1.4.1, 2.4.1	<i>Not covered</i>	<i>Not covered</i>	<i>Not covered</i>

ACCRUAL-BASED INFORMATION (A)						
A.1	Financial information systems	SP7, O7, MC1, MC2, MC3	<i>Not covered</i>	<i>Not covered</i>	<i>Not covered</i>	PR5, PR8, PR9

<b>INTERNAL PFM ELEMENTS (I)</b>						
<b>Strategy and Planning (I1)</b>						
I1.1	Strategic vision	<i>Partially covered in Chapter 3 on the budget sub-system</i>	<i>Not covered</i>	<i>Not covered</i>	Centre of government institutions fulfil all functions critical to a well-organised, consistent and competent policy making system ( <i>in part</i> )	(?L7)
I1.2	Medium term financial strategy	SP3, SP4	2.1.2, 2.1.3, [Pillar IV?]	PI-15, PI-21		L5, PR14
I1.3	Annual planning		<i>Not covered</i>	<i>Not covered</i>		<i>Not covered</i>
I1.4	Risk management	MC3	3.2.1, 3.2.2, 3.2.3, 3.2.4, 3.2.5, 3.2.6, 3.2.7	PI-6, PI-7, PI-10, PI-11, PI-13	<i>Not covered</i>	PR1, PR3
<b>Budget execution (I2)</b>						
I2.1	Targets and indicators	<i>Not covered move to budget exec and also internal controls</i>	<i>Not covered</i>	PI-15	<i>Not covered</i>	(?L3)
I2.2	Internal controls	O3, MC4, MC5, MC6, MC7	<i>Not covered</i>	PI-23, PI-25, PI-26	<i>Not covered</i>	PR2, PR3
I2.3	Budget execution reports	O1	1.3.2, 1.3.3, 1.4.1, 1.4.3	PI-1, PI-2, PI-3	<i>Not covered</i>	<i>Not covered</i>
<b>Performance monitoring (I3)</b>						
I3.1	Managing for results	SP7, SP8, SP9, SP10	2.1.4, 2.3.2	<i>Not covered</i>	<i>Not covered</i>	PR12, PR14
I3.2	In-year / management reporting	O6, O8	1.2.1, 2.4.3, 3.1.3	PI-28	Accounting and reporting practices ensure transparency and public scrutiny over public finances; both cash and debt are managed centrally, in line with legal provisions	PR5

13.3	Role of internal audit	A1	<i>Not covered</i>	PI-26	The internal audit function is established throughout the public sector and internal audit work is carried out according to international standards	PR2
<b>Stakeholder reporting (I4)</b>						
14.1	Financial reporting	O8	1.2.2	PI-29	Accounting and reporting practices ensure transparency and public scrutiny over public finances; both cash and debt are managed centrally, in line with legal provisions	L2, PR6

## PFM Process Architecture: Elements and Components





## IMF Fiscal Transparency Code

<b>I FISCAL REPORTING Fiscal reports should provide a comprehensive, relevant, timely, and reliable overview of the government's financial position and performance</b>	
1.1 Coverage: Fiscal reports should provide a comprehensive overview of the fiscal activities of the public sector, according to international standards	<p>1.1.1 Coverage of institutions: fiscal reports cover all entities engaged in public activity according to international standards.</p> <p>1.1.2 Coverage of stocks: fiscal reports include a balance sheet of public assets, liabilities, and net worth.</p> <p>1.1.3 Coverage of flows: fiscal reports cover all public revenues, expenditures, and financing.</p> <p>1.1.4 Coverage of tax expenditures: the government regularly discloses and manages revenue loss from tax expenditure.</p>
1.2 Frequency and timeliness: fiscal reports should be published in a frequent, regular and timely manner	<p>1.2.1 Frequency of in-year reporting: in-year fiscal reports are published on a frequent and regular basis.</p> <p>1.2.2 Timeliness of annual financial statements: audited or final annual financial statements are published in a timely manner.</p>
1.3 Quality: information in fiscal reports should be relevant, internationally comparable, and internally and historically consistent	<p>1.3.1 Classification: fiscal reports classify information in ways that make clear the use of public resources and facilitate international comparisons.</p> <p>1.3.2 Internal consistency: fiscal reports are internally consistent and include reconciliations between alternative measures of summary fiscal aggregates.</p> <p>1.3.3 Historical revisions: major revisions to historical fiscal statistics are disclosed and explained.</p>

<p>1.4 Integrity: fiscal statistics and financial statements should be reliable, subject to external scrutiny and facilitate accountability</p>	<p>1.4.1 Statistical integrity: fiscal statistics are compiled and disseminated in accordance with international standards.</p> <p>1.4.2 External audit: annual financial statements are subject to a published audit by an independent supreme audit institution which validates their reliability.</p> <p>1.4.3 Comparability of fiscal data: fiscal forecasts, budgets, and fiscal reports are presented on a comparable basis, with any deviations explained.</p>
<p><b>II FISCAL FORECASTING AND BUDGETING Budgets and their underlying fiscal forecasts should provide a clear statement of the central government’s budgetary objectives and policy intentions, and comprehensive, timely, and credible projections of the evolution of the public finances</b></p>	
<p>2.1 Comprehensiveness: fiscal forecasts and budgets should provide a comprehensive overview of fiscal prospects</p>	<p>2.1.1 Budget Unity: revenues, expenditures, and financing of all central government entities are presented on a gross basis in budget documentation and authorised by the legislature.</p> <p>2.1.2 Macroeconomic forecasts: the budget projections are based on comprehensive macroeconomic forecasts, which are disclosed and explained.</p> <p>2.1.3 Medium-term budget framework: budget documentation includes outturns and projections of revenues, expenditures, and financing over the medium-term on the same basis as the annual budget.</p> <p>2.1.4 Investment Projects: the government regularly discloses its financial obligations under multi-annual investment projects, and subjects all major projects to cost-benefit analysis and open and competitive tender.</p>
<p>2.2 Orderliness: the powers and responsibilities of the executive and legislative branches of government in the budget process should be defined in law, and the budget should be presented, debated,</p>	<p>2.2.1 Fiscal legislation: the legal framework clearly defines the timetable for budget preparation and approval, key contents of the budget documentation, and the powers and responsibilities of the executive and legislature in the budget process.</p> <p>2.2.2 Timeliness of budget documents: the legislature and the public are consistently given adequate time to scrutinise and approve the annual budget.</p>

and approved in a timely manner	
2.3 Policy orientation: fiscal forecasts and budgets should be presented in a way that facilitates policy analysis and accountability	<p>2.3.1 Fiscal policy objectives: the government states and reports on clear and measureable objectives for the public finances.</p> <p>2.3.2 Performance information: budget documentation provides information regarding the objectives and results achieved under each major government policy area.</p> <p>2.3.3 Public participation: the government provides citizens with an accessible summary of the implications of budget policies and an opportunity to participate in budget deliberations.</p>
2.4 Credibility: economic and fiscal forecasts and budgets should be credible	<p>2.4.1 Independent evaluation: the government's economic and fiscal forecasts and performance are subject to independent evaluation.</p> <p>2.4.2 Supplementary budget: any material changes to the approved budget are authorised by the legislature.</p> <p>2.4.3 Forecast reconciliation: budget documentation and any subsequent updates explain any material changes to the government's previous fiscal forecasts, distinguishing the fiscal impact of new policy measures from the baseline.</p>
<b>III FISCAL RISK ANALYSIS AND MANAGEMENT Governments should disclose, analyse, and manage risks to the public finances and ensure effective co-ordination of fiscal decision-making across the public sector</b>	
3.1 Risk disclosure and analysis: governments should publish regular summary reports on risks to their fiscal prospects	<p>3.1.1 Macroeconomic risks: the government reports on how fiscal outcomes might differ from baseline forecasts as a result of different macroeconomic assumptions.</p> <p>3.1.2 Specific fiscal risks: the government provides a regular summary report on the main specific risks to its fiscal forecasts.</p> <p>3.1.3 Long-term fiscal sustainability analysis: the government regularly publishes projections of the evolution of the public finances over the long term.</p>
3.2 Risk management: specific risks to the public finances should be regularly monitored, disclosed, and managed	<p>3.2.1 Budgetary contingencies: the budget has adequate and transparent allocations for contingencies that arise during budget execution.</p> <p>3.2.2 Asset and liability management: risks relating to major assets and liabilities are disclosed and managed.</p> <p>3.2.3 Guarantees: the government's guarantee exposure is regularly disclosed and authorised by law.</p>

	<p>3.2.4 Public Private Partnerships: obligations under public-private partnerships are regularly disclosed and actively managed.</p> <p>3.2.5 Financial sector exposure: the government's potential fiscal exposure to the financial sector is analysed, disclosed, and managed.</p> <p>3.2.6 Natural resources: the government's interest in exhaustible natural resource assets and their exploitation is valued, disclosed, and managed.</p> <p>3.2.7 Environmental risks: the potential fiscal exposure to natural disasters and other major environmental risks are analysed, disclosed, and managed.</p>
<p>3.3 Fiscal co-ordination: fiscal relations and performance across the public sector should be analysed, disclosed, and co-ordinated</p>	<p>3.3.1 Sub-national governments: comprehensive information on the financial condition and performance of sub-national governments, individually and as a consolidated sector, are collected and published.</p> <p>3.3.2 Public corporations: the government regularly publishes comprehensive information on the financial performance of public corporations, including any quasi-fiscal activity undertaken by them.</p>

### PEFA

#### **Budget reliability**

- PI-1 Aggregate expenditure outturn
- PI-2 Expenditure composition outturn
- PI-3 Revenue outturn

#### **Transparency of public finances**

- PI-4 Budget classification
- PI-5 Budget documentation
- PI-6 Central government operations outside of financial reports
- PI-7 Transfers to subnational governments
- PI-8 Performance information for service delivery
- PI-9 Public access to fiscal information

#### **Management of assets and liabilities**

- PI-10 Fiscal risk reporting
- PI-11 Public Investment Management
- PI-12 Public Asset Management
- PI-13 Debt management

#### **Policy-based fiscal strategy and budgeting**

- PI-14 Macroeconomic and fiscal forecasting
- PI-15 Fiscal strategy
- PI-16 Medium-term perspective in expenditure budgeting
- PI-17 Budget preparation process
- PI-18 Legislative scrutiny of budgets

#### **Predictability and control in budget execution**

- PI-19 Revenue administration
- PI-20 Accounting for revenue
- PI-21 Predictability of in-year resource allocation

PI-22 Expenditure arrears

PI-23 Payroll controls

PI-24 Procurement management

PI-25 Internal controls on non-salary expenditure

PI-26 Internal audit

### **Accounting and reporting**

PI-27 Financial data integrity

PI-28 In-year budget reports

PI-29 Annual financial reports

### **External Scrutiny and Audit**

PI-30 External audit

PI-31 Legislative scrutiny of audit reports

## SIGMA: The Principles of Public Administration – Baseline measurement

This Annex summarises the key requirements and indicators as shown below. In addition, the SIGMA document has a section on Strategic Framework of Public Administration Reform, which is not considered here. In addition, those key requirements and associated qualitative indicators in grey boxes have not been referenced in the outline of CIPFA's Whole System Approach (2).

Key requirements	Qualitative indicators
Policy development and co-ordination	
Centre of government institutions fulfil all functions critical to a well-organised, consistent and competent policy making system	The following nine critical functions should be covered: 1) co-ordinating the preparation of the government sessions; 2) ensuring legal conformity; 3) co-ordinating preparation and approval of the government's strategic priorities and work programme; 4) co-ordinating the policy content of proposals for government decision, including defining the policy preparation process and ensuring coherence with government priorities; 5) ensuring that the policies are affordable and overseeing co-ordination of public sector resource planning; 6) co-ordinating the government's communication activities to ensure a coherent government message; 7) monitoring government performance to ensure the government collectively performs effectively and keeps its promises to the public; 8) managing relations between the government and other parts of the state (e.g. the president, the parliament); and 9) co-ordinating European integration (EI) affairs.
Policy planning is harmonised, aligned with the Government's financial circumstances and ensures the Government is able to achieve its objectives	Annual implementation backlog of planned commitments in the central planning document(s) Annual backlog in developing sectoral strategies Ratio between total funds estimated in the sectoral strategies and total funding identified for the corresponding sectors within the MTBF Annual implementation backlog of EI-related commitments Completeness of financial estimates in sector strategies Extent to which reporting provides information on the outcomes achieved
Government decisions and legislation are transparent, legally compliant and accessible to the public; the work of the Government is	Ratio of regular agenda items submitted on time by ministries to the Government session Transparency of Government policy making Number of laws with court rulings against the Government during the year Ratio of laws initiated by the Government and approved by the Parliament no later than one year after submission

scrutinised by the Parliament	<p>Extent to which forward planning mechanisms between the Government and the Parliament exists</p> <p>Number of law implementation reports discussed in the Parliament</p>
Inclusive, evidence-based policy and legislative development enables the achievement of intended policy objectives	<p>Backlog of transposition</p> <p>Number of annually transposed directives</p> <p>Ratio of staff participating in legal drafting training or mentoring over the past year</p> <p>Number of laws annulled on the basis of legal inconsistency or unconstitutionality in a given year</p> <p>Number of laws sent back to the Government by the Parliament</p>
	<p>Extent to which ministries are oriented towards policy development</p> <p>Extent to which policy development process makes the best use of analytical tools</p> <p>Extent to which public consultation is used in developing policies and legislation</p> <p>Extent to which the interministerial consultation process occurs</p> <p>Extent to which primary and secondary legislation are made publicly available in a centralised manner</p>
Public service and human resource management	
The scope of public service is clearly defined and applied in practice so that the policy and legal framework and institutional set-up for professional public service is in place.	<p>Extent to which the scope of public service is adequate, clearly defined and applied in practice</p> <p>Extent to which the policy and legal framework for professional and coherent public service is established and implemented</p> <p>Extent to which the institutional set-up enables consistent HRM practices across the public service</p>



<p>Professionalism of public service is ensured by good managerial standards and human resource management practices</p>	<p>Annual turnover of civil servants at the level of the central administration</p> <p>Turnover of civil servants at the level of central administration within six months of a change of government</p> <p>Percentage of vacant positions filled by external competition in the civil service at the level of central administration</p> <p>Percentage of vacant positions filled by internal competition in the civil service at the level of central administration</p> <p>Percentage of women and men in the civil service at the level of central administration</p> <p>Percentage of women and men in senior managerial positions in the civil service at the level of central administration</p> <p>Percentage of civil servants at the level of the central administration by different ethnic origin in relation to the general ethnic division in the country based on the latest census</p> <p>Annual turnover of senior managerial civil servants at the level of the central administration</p> <p>Turnover of senior managerial civil servants at the level of central administration within six months of a change of government</p> <p>Percentage of vacant senior managerial positions at the level of central administration filled by external competition</p> <p>Percentage of vacant senior managerial positions at the level of central administration filled by internal competition</p>
	<p>Ratio of average annual compensation of central government senior and junior professionals to compensation of tertiary-educated workers</p> <p>Ratio of average annual compensation of central government senior public servants to compensation of tertiary-educated workers</p> <p>Transparency International Corruption Perception Index – the country score</p> <p>Citizens' perception of the integrity and trustworthiness of the public service</p> <p>Number of public servants who have been criminally convicted of corruption crimes</p> <p>Extent to which recruitment of public servants is based on the merit principle in all its phases</p> <p>Extent to which the termination of employment of public servants is based on merit</p> <p>Extent to which political influence on the recruitment and dismissal of senior managerial positions in the public service is prevented</p> <p>Extent to which the remuneration system of public servants is fair and transparent and applied in practice</p> <p>Extent to which the training system of public servants is in place and applied in practice</p> <p>Extent to which the performance appraisal system of public servants is in place and applied in practice</p> <p>Extent to which the integrity and anti-corruption system of the public service is in place and applied in practice</p>

	Extent to which the disciplinary procedures against public servants are established to promote individual accountability and avoid arbitrary decisions
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**Accountability**

Proper mechanisms are in place to ensure accountability of state administration bodies, including liability and transparency	<p>Number of bodies reporting to the Council of Ministers, to the Prime Minister or to the Parliament</p> <p>Average number of hierarchical layers in a typical ministry</p> <p>Share of public information requests refused in a given year by the public authorities</p> <p>Share of public information requests refused in a given year by the supervisory authority</p> <p>Share of public information requests upheld by the courts</p> <p>Share of public authorities maintaining websites in line with regulatory requirements</p> <p>Share of public authorities maintaining a document registry and database</p> <p>Percentage of citizens who have trust in the Ombudsman institution(s)</p> <p>Share of oversight institutions' recommendations to state administrative bodies implemented within two years</p> <p>Number of administrative court cases ruled per year per judge</p> <p>Number of complaints submitted to the administrative court in a given year</p> <p>Percentage of cases changed or returned for verification by the higher court</p> <p>Percentage of citizens who have trust in the court system</p> <p>Backlog of administrative cases</p> <p>Share of complaints resulting in payment of compensation</p> <p>Extent to which the overall structure of ministries and other bodies subordinated to central government is rational and coherent</p>
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	<p>Extent to which the right to access public information is enacted in legislation and applied in practice</p> <p>Extent to which the mechanisms are in place to provide effective checks and balances, and controls over public organisations</p> <p>Extent to which public authorities assume liabilities and guarantee redress</p>
<b>Service delivery</b>	
<p>Administration is citizen-oriented; the quality and accessibility of public services is ensured</p>	<p>Expenditure on general public services as a share of gross domestic product</p> <p>Favouritism in decisions of government officials</p> <p>Percentage of users satisfied with public services</p> <p>Proportion of institutions using quality assurance tools and techniques (e.g. European Foundation for Quality Management, Common Assessment Framework and other international standards)</p> <p>Share of public servants directly engaged in service delivery who received training in the last two years</p> <p>Average time needed to acquire a personal identification document (passport or ID card) after submitting the application</p> <p>Share of institutions where customer satisfaction surveys are conducted on a regular basis (at least every two years)</p> <p>Average number of days needed to set up a business</p> <p>Average cost of setting up a business (World Bank Doing Business report)</p> <p>Number of one-stop-shops that provide the services for more than three different public institutions</p> <p>Number of services provided through one-stop-shops</p> <p>Number of services provided through one-stop-shops</p> <p>Share of citizens who submitted paperless/electronic/digital income tax statements last year</p> <p>Share of companies that sent their tax declarations using the Internet</p> <p>Extent to which citizen-oriented policy for service delivery is in place and applied</p> <p>Extent to which policy and administrative preconditions for e-service delivery are applied</p> <p>Extent to which the legal framework for good administration is in place and applied</p>
<b>Public Financial Management</b>	
<p>The Budget is formulated in compliance with transparent legal provisions and within an overall multi-annual framework, ensuring that the general government budget balance and the debt-to-gross domestic product</p>	<p>Percentage differences between the planned budget revenues in the MTBF (as approved two years before the latest available year) and the outturn of the latest available year</p> <p>Percentage differences between the planned budget expenditure in the MTBF (as approved two years before the latest available year) and the outturn of the latest available year</p> <p>General government budget balance</p> <p>Percentage differences between the planned budget revenues (as approved in the Budget) compared to the outturn of the latest available year</p>

ratio are on a sustainable path	<p>Percentage differences between the planned budget expenditure (as approved in the Budget) compared to the outturn of the latest available year</p> <p>MTBF strength index</p> <p>Fiscal rules strength index</p> <p>Extent to which the annual budget proposal includes full information at the time of presentation to the Parliament</p>
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Accounting and reporting practices ensure transparency and public scrutiny over public finances; both cash and debt are managed centrally, in line with legal provisions	<p>Average percentage differences between cash flow projections and actual cash balance on a monthly basis</p> <p>Accumulated arrears for central government measured as a percentage of total expenditure at the end of the latest available calendar year</p> <p>Public-sector debt servicing costs as a share of gross domestic product</p> <p>Difference of public-sector debt level outturn from target</p> <p>Extent to which in-year financial reporting provides full information and is made publicly available</p> <p>Extent to which the annual financial report includes full information and is made available in time to the Parliament</p>
National financial management and control policy is in line with the requirements of Chapter 32 of European Union accession negotiations and is systematically implemented throughout the public sector	<p>Share of first-level budget organisations where budget structure is aligned with the organisational structure</p> <p>Share of first-level budget organisations where delegated budget holders below minister or secretary-general level receive at least monthly information on financial commitments and spending against the Budget within their part of the Budget</p> <p>Wastefulness of Government spending (World Economic Forum)</p> <p>Extent to which the operational framework for FMC is complete, in place and applied</p>
The internal audit function is established throughout the public sector and internal audit work is carried out according to international standards	<p>Share of public administration organisations meeting national legal requirements for establishing and minimum staffing of internal audit units</p> <p>Share of internal auditors with a national or international internal audit certificate</p> <p>Share of organisations with annual internal audit plans conforming to national legal requirements</p> <p>Extent to which the operational framework for internal audit is designed and in place</p> <p>Quality of internal audit reports</p>
Public procurement is regulated by duly enforced policies and procedures that reflect the principles of the Treaty on the functioning of the	<p>Extent to which public procurement legislation is complete and enforced - progress is benchmarked according to four elements: 1) compliance with the acquis; 2) regulations in areas not covered by the acquis; 3) harmonisation with other areas; and 4) implementation of legislation.</p>

<p>European Union and the European Union acquis, and are supported by suitably competent and adequately resourced institutions</p>	<p>Nature and extent of public consultations during the process of developing regulations for public procurement and monitoring their use and appropriateness</p> <p>Extent to which policy framework for public procurement is developed and implemented</p> <p>Presence, clarity and completeness of a policy framework for the medium- and long-term development of the public procurement system</p> <p>Timeliness and comprehensiveness of the implementation and updating of the policy framework</p> <p>Extent of coverage by dedicated institutions of the central procurement functions mentioned and of regulations defining their roles, responsibilities, working practices, staffing and resources</p> <p>Comprehensiveness of systems for monitoring and reporting on public procurement proceedings and practices</p> <p>Clarity, timeliness, comprehensiveness and accessibility of information to contracting authorities and entities, economic operators and other stakeholders</p>
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<p>In case of alleged breaches of procurement rules, aggrieved parties have access to justice through an independent, transparent, effective and efficient remedies system</p>	<p>Actual processing time of complaints related to procurement compared with the maximum legal requirements</p> <p>Number of cases in which the procurement review body exceeded the legal maximum processing time in relation to the total number of complaints</p> <p>Number of complaints in relation to the number of tender notices published</p> <p>Share of complaints in procurement that are challenged to the next judicial level</p> <p>Presence of procurement review and appeal bodies covering the functions mentioned and of regulations defining their roles, responsibilities, working practices, staffing and resources, including the integrity of their work</p> <p>Presence of user-friendly procurement review website including timely publication of decisions and statistics, with adequate search functions</p>
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<p>Contracting authorities are adequately staffed and resourced and carry out their work in accordance with applicable regulations and recognised good practice, interacting with an open and competitive supply market</p>	<p>Share of contracts already announced in published procurement plans or indicative notices</p> <p>Share of contracts awarded by competitive procedures</p> <p>Share of contracts awarded based on acquisition price only</p> <p>Share of contracts amended after award</p> <p>Share of contracts subject to formal post-evaluation</p> <p>Average number of tenders submitted per goods contract to be procured</p> <p>Average number of tenders submitted per works contract to be procured</p> <p>Average number of tenders submitted per services contract to be procured</p>
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	<p>Extent of use of modern procurement techniques and methods - framework agreements, centralised purchasing and e-procurement</p> <p>Nature and extent of clear, user-friendly guidelines and instructions, standard documents and other tools available to contracting authorities and procurement officials</p> <p>Professionalisation of procurement officials - education level of procurement officials and extent of available training</p>
<p>The constitutional and legal framework guarantees the independence, mandate and organisation of the Supreme Audit Institution to perform its mandate autonomously according to the standards applied for its audit work, allowing for high-quality audits that impact on public sector functioning</p>	<p>Difference between approved budget and realised expenditure of the SAI</p> <p>Share of SAI budget in the state Budget</p> <p>Amount of resources used for mandatory audits compared with resources for audits selected independently by the SAI</p> <p>Proportion of audit reports published on the SAI website compared to total audit reports adopted</p> <p>Share of audit recommendations accepted and implemented by auditees</p> <p>Share of timely audit reports</p> <p>Extent to which the fundamental for SAI independence, mandate and organisation is established and protected by the constitutional and legal framework</p> <p>Extent to which SAI management ensures the development of the institution</p> <p>Extent to which the SAI uses the standards to ensure quality of audit work</p>

## The CIPFA FM Model (v4): Top Level Good Practice Statements

<b>LEADERSHIP</b>	
Delivering Accountability	
L1	Financial capability is regarded as integral to supporting the delivery of the organisation's objectives. The CFO is an active member of the Board, is at the heart of corporate strategy/business decision making and leads a highly visible, influential and supportive Finance Team.
L2	The organisation has an effective framework of financial accountability that is clearly understood and applied throughout, from the Board through executive and non-executive directors to front-line service managers.
L3	Within an annual budget setting process the organisation's leadership sets income requirements and allocates resources to different activities in order to achieve its objectives. The organisation and monitors the organisation's financial and activity performance in delivering planned outcomes.
Supporting performance	
L4	The organisation has a developed financial management strategy to underpin long-term financial health. The organisation integrates its business and financial planning so that it aligns resources to meet current and future business objectives and priorities.
L5	The organisation develops and uses financial / leadership expertise in its strategic decision-making and its performance management based on an appraisal of the financial environment and cost drivers.
Enabling transformation	
L6	The organisation's leadership integrates financial management into its strategies to meet future business needs. Its financial management approach supports the change agenda and a culture of customer focus, innovation, improvement and development.
<b>PEOPLE</b>	
Delivering accountability	
P1	The organisation identifies its need for financial competency needs and puts arrangements in place to meet them.
P2	The organisation has access to sufficient financial skills to meet its business needs.
Supporting performance	
P3	The organisation manages its finance function to ensure efficiency and effectiveness
P4	Finance staff provide business partner support by interpreting and explaining performance as well as advising and supporting on key business decisions.
P5	Managers understand they are responsible for delivering services cost effectively and are held accountable for doing so. Financial literacy is diffused throughout the organisation so that decision takers understand and manage the financial implications of their decisions.
Enabling transformation	
P6	The organisation develops and sustains its financial management capacity to help shape and support its transformational programme.

<b>PROCESSES</b>	
Delivering accountability	
PR1	Budgets are accrual-based and robustly calculated
PR2	The organisation operates financial information systems that enable the consistent production of comprehensive, accrual-based, accurate and up to date data the fully meets users' needs.
PR3	The organisation operates and maintains accurate, timely and efficient transactional financial services (e.g., creditor payments, income collection, payroll, and pensions administration).
PR4	The organisation's treasury management is risk based. It manages its investments and cash flows, its banking, money market and capital market transactions, balancing risk and financial performance.
PR5	The organisation actively manages budgets, with effective budget monitoring arrangements to ensure 'no surprises' and trigger responsive action.
PR6	The organisation maintains processes to ensure that information about key assets and liabilities in its balance sheet is a sound and current platform for management action.
PR7	Management understands and addresses its risk management and internal control governance responsibilities.
PR8	Management is supported by effective assurance arrangements, including internal audit, and audit and risk committee(s).
PR9	The organisation's financial accounting and reporting are accrual based and comply with international standards, and meet relevant professional and regulatory standards.
Supporting performance	
PR10	The organisation's medium-term financial planning process underpins fiscal discipline, is focussed upon the achievement of its strategic priorities and delivers a dynamic and effective Business Plan.
PR11	Forecasting processes and reporting are well developed and supported by accountable operational management. Forecasting is insightful and leads to optimal decision making.
PR12	The organisation systematically pursues opportunities to reduce costs and improve value for money in its operations.
PR13	The organisation systematically pursues opportunities for improved value for money and cost savings through its procurement and commissioning.
Enabling transformation	
PR14	The organisation re-engineers its financial processes to ensure delivery of agreed outcomes is optimised.
PR15	The organisation's financial management processes support organisational change.
<b>STAKEHOLDERS</b>	
Securing stewardship	
S1	The organisation provides external stakeholders with evidence of the integrity of its financial conduct and performance, and demonstrates fiscal discipline including compliance with statutory/legal/regulatory obligations.
Supporting performance	
S2	The organisation provides evidence that it applies a value for money approach in the use of its resources.
Enabling transformation	



S3	The organisation is responsive to its operating environment, seeking and responding to customer and stakeholder service and spending priorities that impact on its financial management.
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# The PFM organisational architecture

## Organisational function

- 3.1 The organisational framework represents the structure of agencies and organisations that are directly involved in funding and executing public sector expenditure, and in promulgating, operating, developing and overseeing PFM standards and practices<sup>2</sup>. These organisations constitute a powerful resource for development partners, which they need to mobilise in order to achieve public sector goals.
- 3.2 CIPFA proposes some organising principles for this collection of organisations, and an approach to their mapping. The aim is to help development partners – governments, donors and their advisers - to understand, use and enhance the functionality of the PFM architecture, by providing a simple overview. It aims to offer those who operate and oversee the PFM framework an entry point to analyse its strengths and possible gaps and identify priorities to improve its effectiveness. Mapping these organisations can assist governments and donors to navigate the PFM world, to select partner PFM organisations appropriately and to route aid efficiently.
- 3.3 The organisational structure can be described in progressive detail:
  - Levels: that distinguish the reach of the organisation - global, regional, national and sub-national.
  - Types: distinguished by principal PFM function in the overall system.

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<sup>2</sup> The description of organisations is taken from CIPFA's International Glossary: <http://www.cipfa.org.uk/international/glossary.cfm>

Organisational Framework	
International sponsors	- World Bank - IMF - Donors - OECD - Others
Global bodies	- CIPFA - IFAC - PEFA initiative - INTOSAI
Regional bodies	- Funders - Associations - IFAC organisational & accountancy groupings - Advisory bodies - Training providers - INTOSAI working groups
National bodies	- Government & legislature - Regulators - Standard setters - Accountancy bodies - SAIs - Others - Mainly private sector
Sub-national and sectoral bodies	- Central government - Local authorities - Government Business Enterprises - Others

## Levels of organisation

3.4 Four levels of organisation are identified:

- International: whose ambit and influence is intended to apply across the world. This includes worldwide organisations sponsoring PFM, such as the World Bank and IMF, and other global organisations whose ambit and influence extends across a number of countries, responding to the organisation's priorities and particular interests.
- Regional: whose ambit and influence extend beyond a single country within a defined, usually geographical, region of the world. The key types are financial organisations funding development, associations of public finance, accountancy and audit professionals, the Supreme Audit Institutions' regional working groups, the IMF's Regional Technical Assistance Centres and several important topic based initiatives.
- National: whose ambit and influence apply within the boundaries of a single country, including its central government.
- Sub-national: whose ambit and influence apply within a country, limited to a particular geographic area or purpose. Types include deconcentrated national administration, provincial and local governments, and publicly owned government business enterprises.

## Types of organisation

- 3.5 PFM organisations also fall into different types. The taxonomy that follows is illustrated in relation to the international development community, rather than the developed world.
- 3.6 At global level, organisations can be categorised as follows.

## International sponsors

- 3.7 A number of international organisations have a wide ranging role in the global economy, promoting economic development and poverty reduction and sponsoring high quality PFM. This includes the World Bank, IMF and OECD. They operate through a family of organisations, providing finance, technical assistance and support to the performance of PFM.
- 3.8 Individual donor countries fall into this sponsorship category. Countries may maintain programmes of assistance that express their own government's priorities. Within broad aims such as the Millennium Development Goals they may focus on defined regions or substantive priorities, for example, water and sanitation or supporting small businesses, and they may be involved in multilateral programmes. Regional emphases may reflect historical cultural ties. Countries may differ in the balance they strike between relief and tackling the causes of poverty and their commitment to building global partnerships for those working on development.
- 3.9 Other bodies with global reach are also active in the PFM realm, often from a sectoral perspective, such as charities and emergency relief. These bodies form part of the organisational architecture because they inject large amounts of funding, and in countries where governments are seen as having weak capacity they may be the chosen conduit for action. They are therefore part of the landscape in addressing donor coordination.

## Global PFM organisations

- 3.10 This group covers organisations that seek to provide leadership and expertise in PFM at a worldwide level, including CIPFA itself. Umbrella organisations such as the International Federation of Accountants (IFAC) and International Organisation of Supreme Audit Institutions (INTOSAI) have been set up by finance professionals to promote specific topics, to disseminate knowledge and to uphold the professional standards and status of their dispersed membership. The formulation of common standards and practices is a notable function since this supports a baseline of understanding and accountability, of particular relevance to organisations, businesses and processes that operate across national boundaries. Much of this activity is driven by organisations rooted in the private sector.
- 3.11 The development community has also come together to develop some public financial management tools to facilitate understanding, reduce duplication and ease the compliance burden for countries. The Public Expenditure and Financial Accountability Initiative (PEFA) is a notable example, but there are also specific organisations and initiatives that address individual PFM themes such as budgeting.

## Regional bodies

### Funders

- 3.12 The first cluster, that includes the Multilateral Development Banks, is concerned with raising and channelling finance. Their purpose is to promote economic and social development through loans, very long term loans (credits) at below market interest rates, equity investment and technical assistance, sometimes grant aided. Other Multilateral Financial Organisations (such as the European Investment Bank) lend to developing countries.

### Financial professionals in accounting and auditing

- 3.13 The function of these bodies is to share knowledge and experience across the region. They can also substitute for national bodies if these are too weak to be effective or where it would be inefficient to duplicate resources in each country. The accountancy profession has established a strong network at both regional and country level. Regional bodies include the umbrella organisations for recognised national associations of accounting professionals. Their purpose is to support professional advancement and continuous development; to exchange technical information and best practice; to undertake research; and to establish a medium for closer relations, regional cooperation, and mutual assistance among members. These organisations do not have a distinctively public finance focus, and do not themselves confer accountancy qualifications.
- 3.14 The various organisations are charted in the section below on regional mapping. This is not an exhaustive list: it is given here in some detail to illustrate that there is a considerable range of organisations. But their place in the PFM system is dependent on the quality of their contribution to financial management specifically in the field of public service.

### National bodies

- 3.15 At this level central government organisations are pivotal, with the Ministry of Finance, (or sometimes Planning), leading PFM functions of macro-fiscal coordination, budget formulation and execution and revenue policy and management. Legislative organisations have a part to play, in setting the regulatory framework and in scrutinising the effectiveness of PFM performance. Other national organisations include accountancy institutes that often focus on private sector audit. Local training providers include universities and private sector providers. While some have a specialism in finance training there are few centres of excellence in public sector financial management.

### Sub-national bodies

- 3.16 Further down the institutional hierarchy the complexity and variety of the landscape increases greatly and generalisation becomes more problematic. Organisations funded by the public purse in order to provide public services can take a number of shapes, such as elected bodies with their own powers of action, taxation and borrowing, including federal states or provinces. They may have different ranges of responsibilities, for example, whether they cover secondary education or health facilities, whether they are multi-purpose or single service providers, whether they have general powers of competence or are more narrowly governed. There may be a number of tiers of sub-national authorities, such as the UK's regional, county, district and parish councils. These patterns may vary even within the same country, as they do in the UK. They may also take different legal forms, such as national agencies, local governments or deconcentrated arms of the national administration. The operations of publicly owned commercial organisations, sometimes with hybrid terms of reference and activity (such as subsidised finance) are not uncommon, but are mainly outside the scope of this paper.

- 3.17 Examples of organisations falling into each grouping, together with a brief introduction to their function in the PFM system, are included. This list is not intended to be comprehensive.

### **Contracted services**

- 3.18 A large proportion of PFM initiatives are carried out under contract. This applies at every level, and the effectiveness of PFM is greatly influenced by the quality of procurement, of contract management and of the consultants employed. Consultants can be very influential in spreading ideas and policies, and training PFM administrators and leaders. The major accountancy firms operate globally. Other contracted services, such as software development, help to shape PFM operations. The consultancy world is too diverse to include in this framework or the maps that follow, but its significance is not to be underestimated.

### **Issues arising**

- 3.19 The organisational framework illustrates the complexity of the PFM architecture. This mosaic of resources and interventions requires some orchestration to avoid duplication, gaps and an overload of differing requirements placed on developing countries with limited capability.
- 3.20 The existing architecture of organisations described in this chapter prompts a number of suggestions that could improve the effectiveness of donor strategies and PFM interventions. These reflections are put forward to stimulate discussion and prioritisation for further analysis, and action to strengthen the system.

### **The accountancy profession's role**

- 3.21 PFM elements associated with the international accountancy profession are accorded much weight in defining and ensuring high quality PFM. They are often expected to be the means for transmitting good practice towards the front line, where expenditure decisions are taken. The transmission works through:
- IFAC setting accounting and other standards such as educational standards, that drive many fundamental requirements, e.g. the nature and extent of the training need in each country;
  - countries being expected to comply with external auditing standards defined by INTOSAI which are based on International Standards on Auditing (ISA) as promulgated by the International Audit and Assurance Standards Board (IAASB);
  - internal auditing standards, many set de facto by IIA, assumed to be relevant to the needs of public sector bodies, although in many cases these have been developed in a private sector environment;
  - increasing global adoption of accounting standards, that reduces discretion available to national standard setters in an individual country.

- 3.22 However in reality, the transmission of good practice and advancement of high quality PFM through international standards presents challenges for many countries, as they maintain insufficient capacity to support the implementation of international standards. IFAC has issued international public sector accounting standards (IPSAS), including both cash and accruals standards, with information on transition. Even so there can be a gulf between the technical expertise of those who define standards and that existing in country and regional bodies. In many cases, national-level capabilities are too weak to develop and follow transitional paths towards standards adoption and implementation.
- 3.23 The drive to global adoption of accounting standards should therefore recognize the fragile capacity of some countries expected to implement them, the sequencing implications (e.g. 'account for cash before accounting for accruals' ), as well as the proportion of capacity that may be devoted to harmonisation compared with other PFM reforms. These relative imbalances need to inform donors' expectations. The path to compliance should take into account relevance, proportionality and meaningfulness in the public sector context, supporting where necessary the work of national government accountancy leadership, and ensuring that the path to full adoption of international standards is well charted and supported.

### **The sub-national PFM infrastructure**

- 3.24 The number of sub-national delivery bodies and the differences between them in scope, resources, functions and autonomy mean that bilateral engagement between donors and these organisations becomes a practical impossibility for many donors. Donors often relate principally to Ministries of Finance and organisations such as Supreme Audit Institutions, on whom they rely to manage a structure of delivery bodies.
- 3.25 However, government spending programmes are not in general managed by the Ministry of Finance, and delivery agencies may be other ministries or sub-national organisations, like local governments. In practical terms effective delivery is too diverse and complicated to be driven through a primarily top down approach. Aid modalities that favour a devolved approach need to ensure that sub-national capability is addressed in reform plans, both to deliver aid programmes and to create a sustainable legacy.
- 3.26 Professionalisation has a key role in supporting finance staff in moving to financial leadership not just in technical expertise, and in taking responsibility for future development of themselves and others. However for this to happen, professional qualification needs to take place in a supportive environment that recognises, rewards and uses personal development.

## **Regional mapping**

- 3.27 This section demonstrates an approach to mapping PFM organisations, showing the principal organisations across the main regions of the world. Some highly developed regions such as North America are excluded here because their PFM practices are well established and analogous to the other European models.
- 3.28 Mapping the regional architecture can assist governments' and donors' decisions and hence the effectiveness of development funding and programmes, by:
- giving a speedy overview of the organisations in each region and the PFM resources available;
  - showing countries in their regional context, balancing a donor tendency to concentrate on individual countries, that can result in uncoordinated solutions within a region;

- assisting technical understanding of the structure, purpose and role of the PFM architecture;
- helping donors decide whether organisations are the right partners for the intended purpose by focussing on their type and function. Donors also need to look at the capacity of organisations, some of which may be quite fragile;
- suggesting how to weld together regional professionalisation. For example improving one institution ought to target a system effect in lifting the area as a whole;
- countering the risk that donors may bypass existing organisations because they are unaware of their existence or function;
- surfacing issues about the completeness of the arrangements in each region to support PFM and suggesting where gaps may need to be addressed;
- opening up discussion about what functions are best performed at regional level and what at country or sub-national level. For example, setting up regional communities of practice or common PFM qualifications frameworks such as the Africa Staff Capacity Development Initiative (SCDI) may avoid duplicating cost or time and create benefits for knowledge exchange. Some PFM initiatives may work well with a common regional spine and local tailoring, for example, an audit manual. Other PFM aspects may be better tailored for country conditions. For example, professional qualifications could be awarded at country level, with a regional system for continuous professional development;
- highlighting the importance of confidence about transmission or trickle down efficiency where regional bodies are selected to create country PFM improvements.

3.29 The charts produced in this paper are high level, and the development community will also want to examine more detailed aspects of organisations they might support, such as their capacity and track record. Regions are not always consistently defined by the various stakeholders across the world, so some judgement has been applied to classification. This is made clear in the countries listed for each. The maps show organisations at the different geo-political levels of Global, Regional, and National. Description has not been extended to sub-national level, because of the complexity involved, although this is something that could be pursued on a case by case basis.

3.30 The maps prompt some immediate observations:

- This is not an architecture that has developed by design. It grows out of a long history rather than out of system logic.
- The proliferation of bodies says nothing about quality, and organisations with similar titles may have very different PFM capacity.
- Institutional specialisation tends to fragment PFM topics, e.g. audit, budgeting, rather than to pull them together.
- For countries with underdeveloped professionalisation and weak capacity, meeting the requirements of the large institutional superstructure and participating in regional initiatives may absorb a disproportionate share of resources needed more importantly for national service priorities.
- Conversely it may be sensible to develop some resources at regional level rather than duplicate this effort in each country, especially where there are additional benefits in

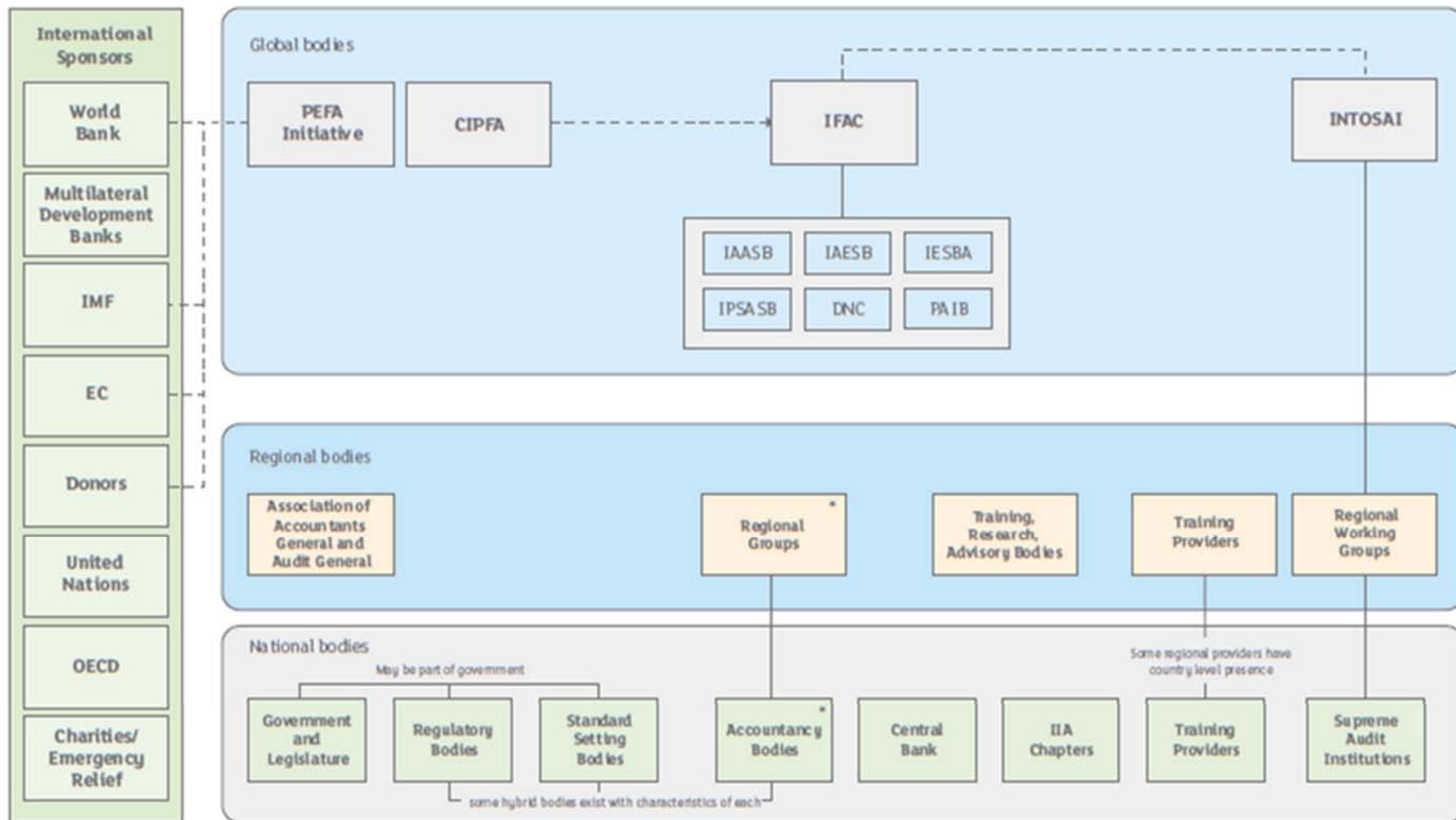


terms of the exchangeability of information or the efficiency of consultancy procurement or software development.

- A striking feature is the general paucity of organisations dedicated to PFM as opposed to accountancy with a private sector focus.

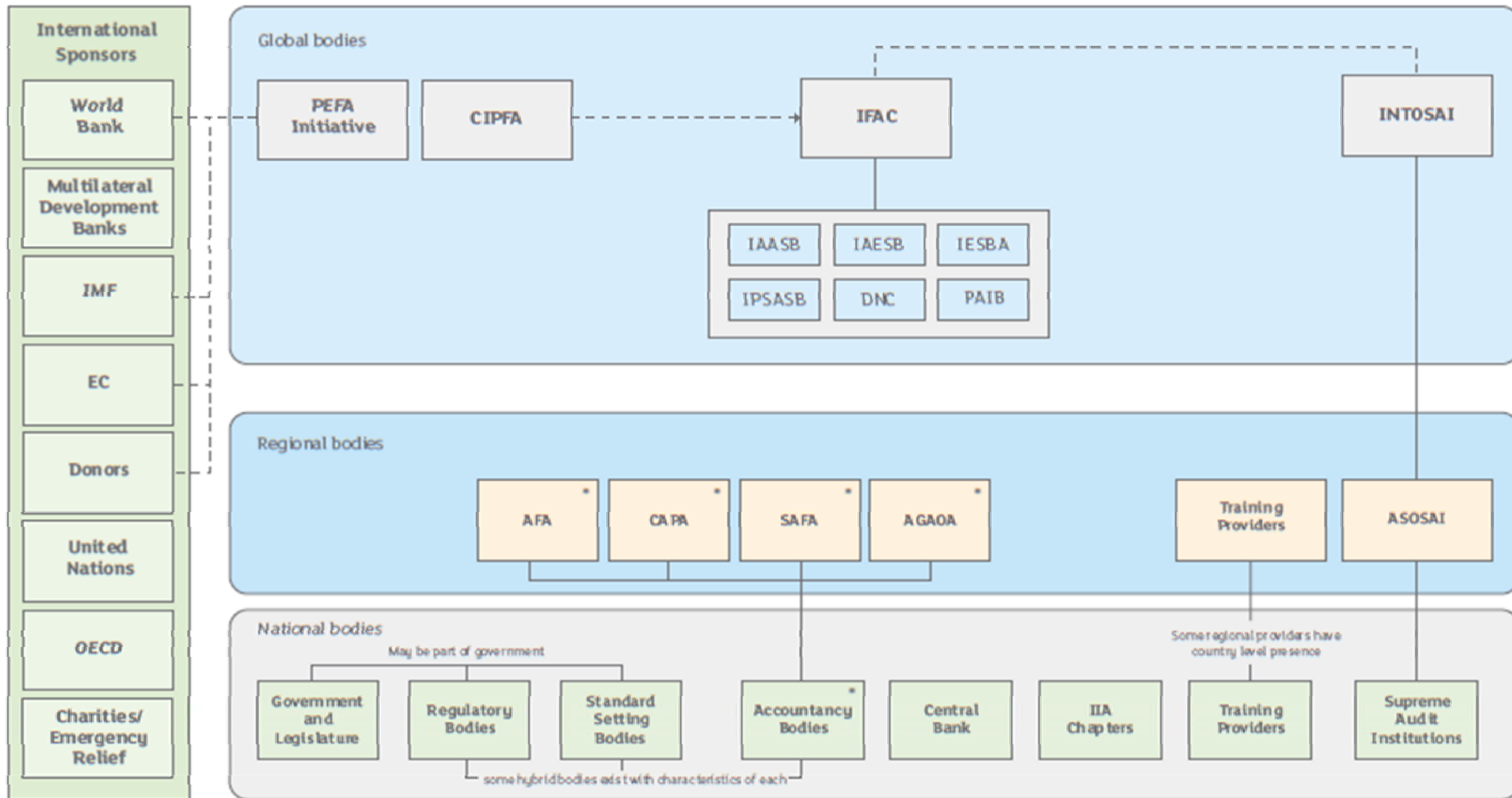
- 3.31 Charting the organisations present in each of the major geographical regions is a basis for development partners to consider how best to route PFM reform projects. In practice it will often be useful to analyse the situation within a country in more detail in order to assess how the resources available can best be mobilised to support PFM initiatives. This could be extended to include other relevant national bodies and a wider range of local capacity building resources.
- 3.32 Mapping enables a simple overview of the institutional resources available and their intended function. It offers a framework for analysis of gaps and duplications, and invites discussion of the quality of existing organisations. Understanding the functions and purposes of regional and national bodies helps donors to select organisations to support country reform initiatives and to create a more efficient outcome for countries and donors.

## PFM International Architecture: Organisational Framework



\* Mainly private sector

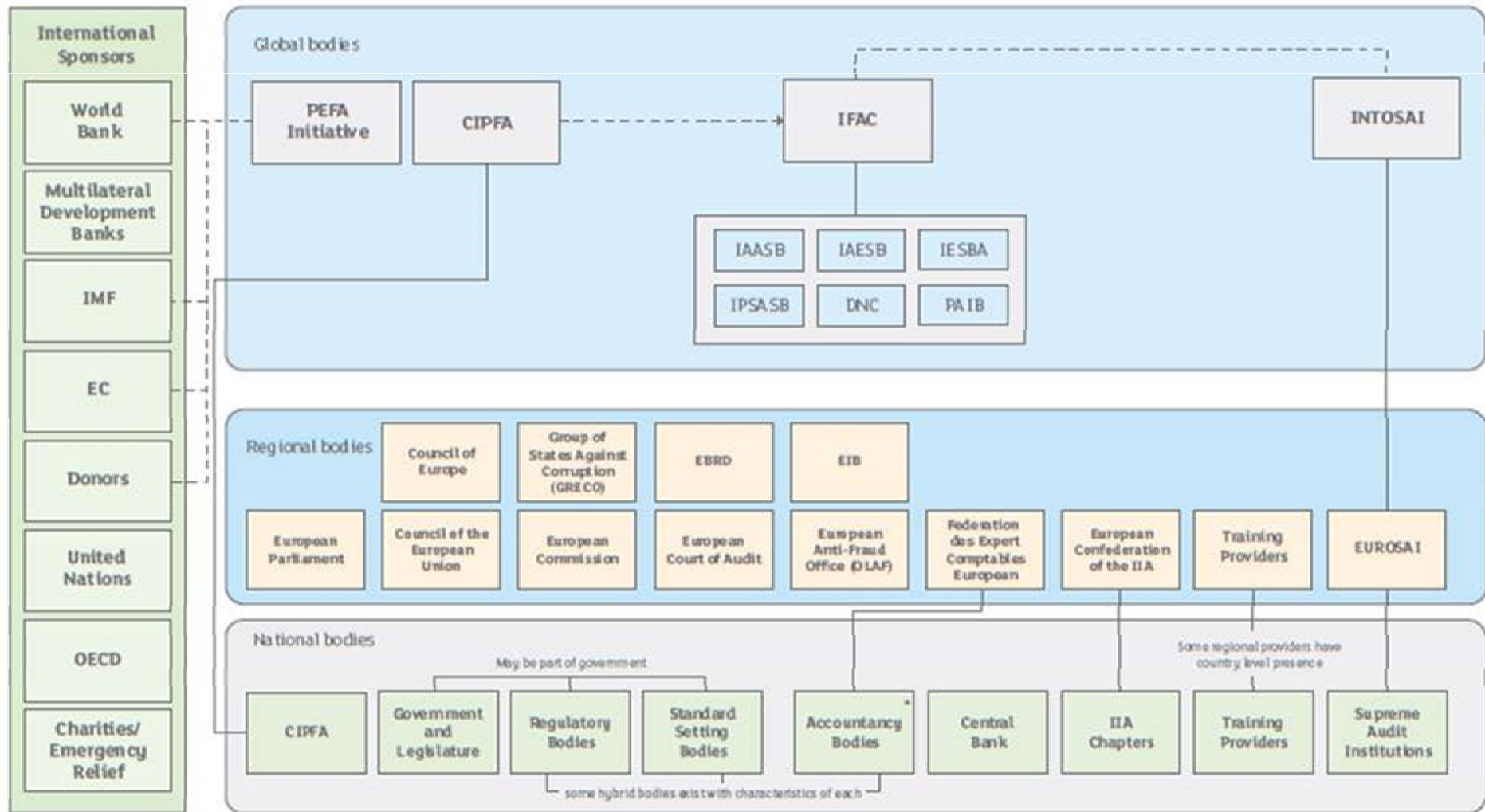
## PFM International Architecture: Organisational Framework: Asia



\* Mainly private sector

China, Hong Kong, Macao Special Administrative Region of China, Democratic People's Republic of Korea, Japan, Mongolia, Republic of Korea, Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, Sri Lanka, Brunei Darussalam, Cambodia, Indonesia, Lao People's Democratic Republic, Malaysia, Philippines, Singapore, Thailand, Timor-Leste, Viet Nam

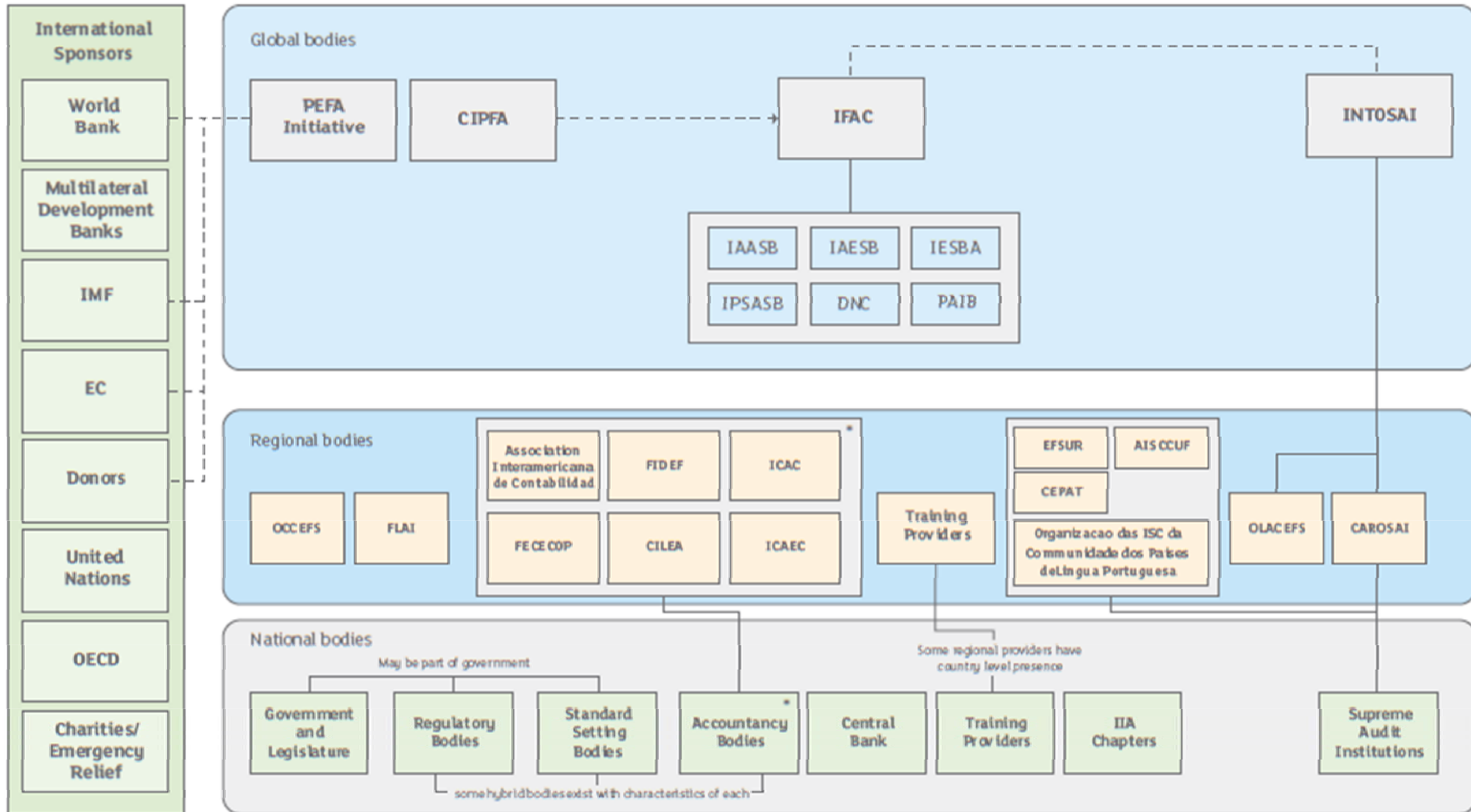
# PFM International Architecture: Organisational Framework: Europe



\* Mainly private sector

The member states of the European Union plus Norway, Iceland, Greenland and Switzerland

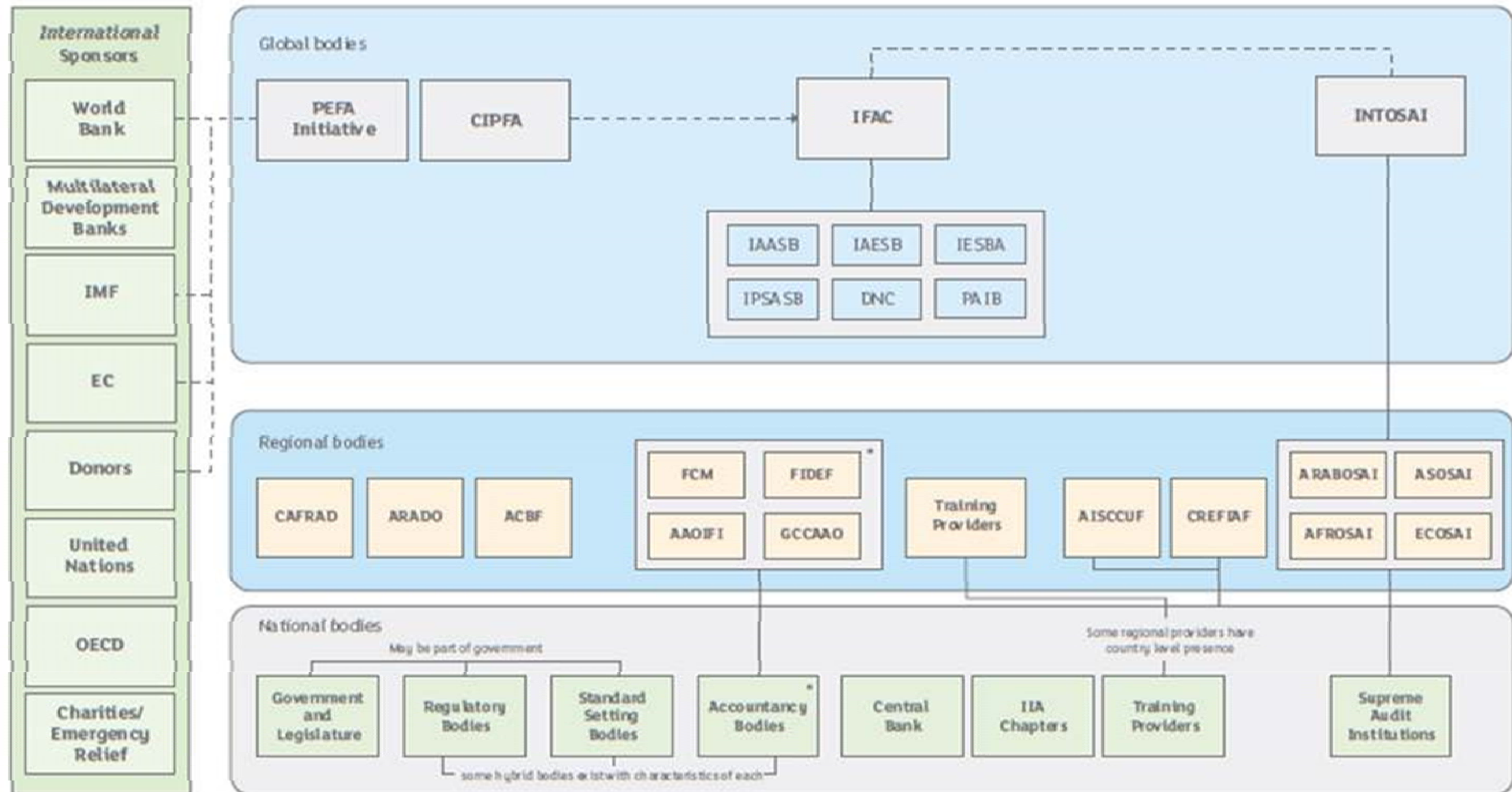
# PFM International Architecture: Organisational Framework: Latin America & The Caribbean



\* Mainly private sector

Anguilla, Antigua, Argentina, Barbados, Belize, Bolivia, Central America, Chile, Columbia, Costa Rica, Dominica, Dominican Republic, Ecuador, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Montserrat, Nicaragua, Panama, Paraguay, Peru, St Kitts-Nevis, St Lucia, and Grenadines, Suriname, Trinidad and Tobago, Turks and Caicos Islands, Uruguay, Venezuela, Windward Islands

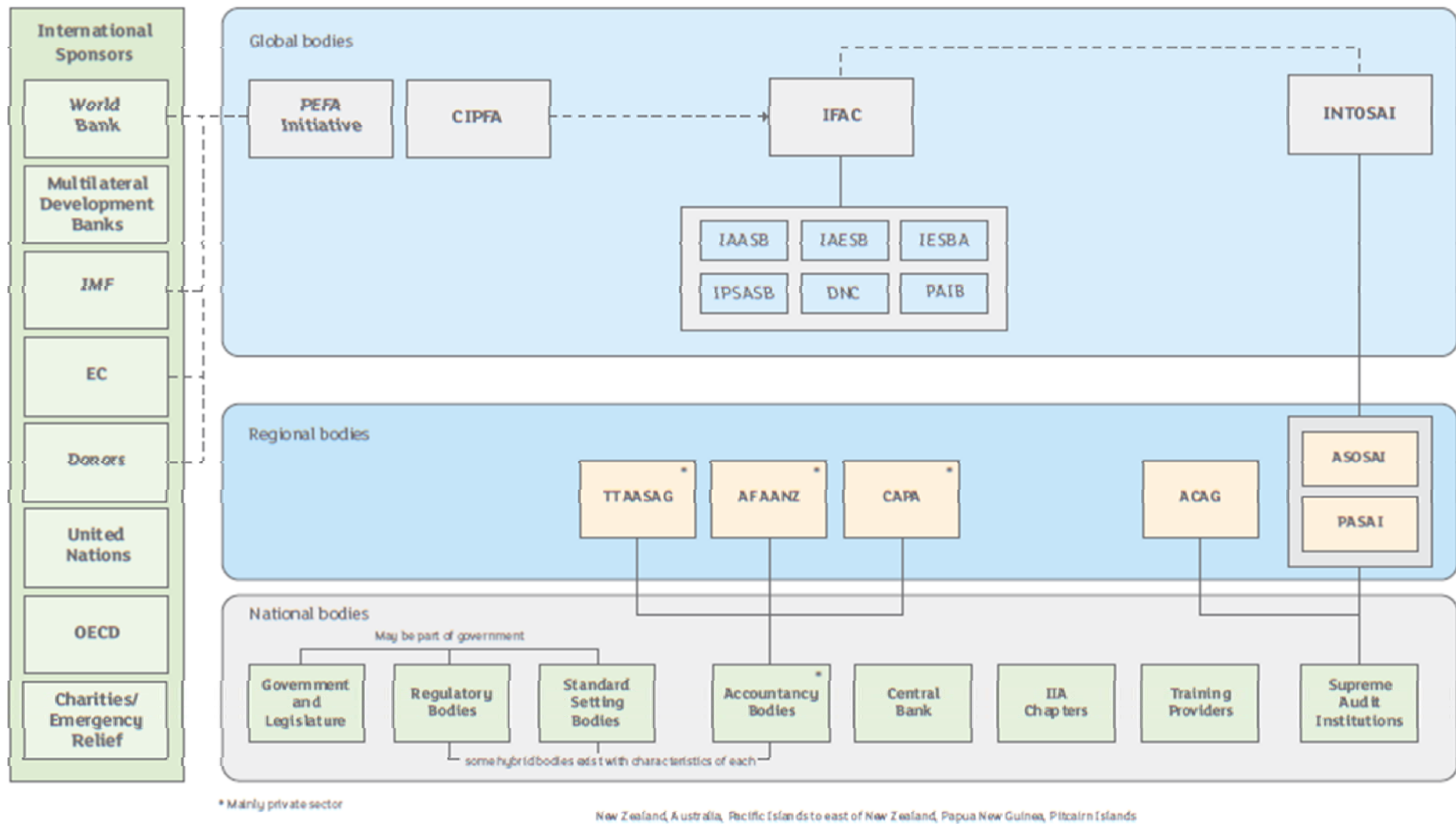
# PFM International Architecture: Organisational Framework: Middle East and North Africa



\* Mainly private sector

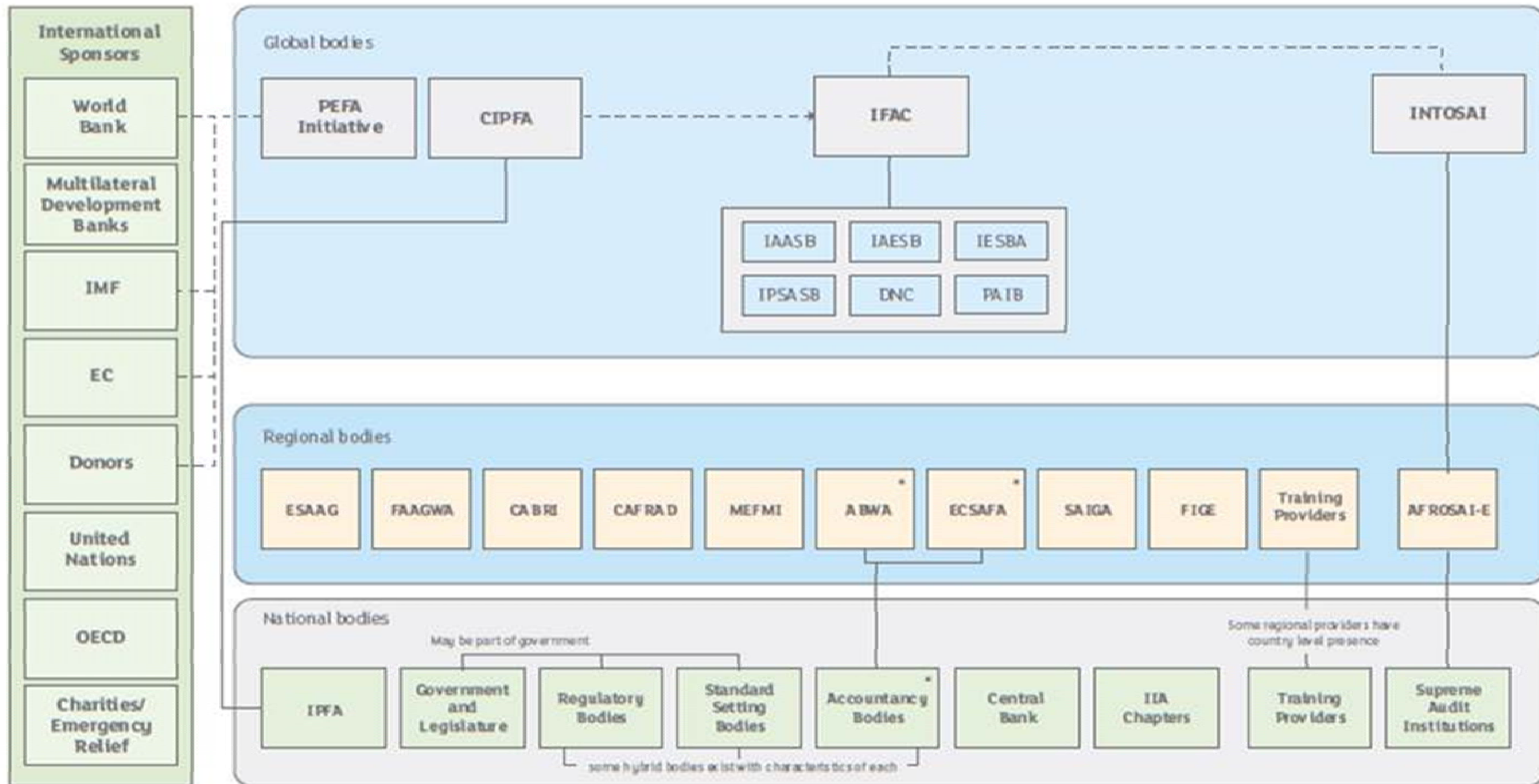
Algeria, Bahrain, Djibouti, Egypt, Islamic Republic of Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Palestinian Territories, Qatar, Saudi Arabia, Syrian Arab Republic, Tunisia, United Arab Emirates, Western Sahara, Yemen

## PFM International Architecture: Organisational Framework: Pacific





## PFM International Architecture: Organisational Framework: Sub-Saharan Africa



\* Mainly private sector

Angola, Benin, Botswana, Burundi, Cameroon, Congo (Democratic Republic of), Cote d'Ivoire, Eritrea, Ethiopia, Gambia, Ghana, Guinea, Kenya, Lesotho, Liberia, Madagascar, Malawi, Mozambique, Namibia, Niger, Nigeria, Rwanda, Sierra Leone, South Africa, Sudan, Swaziland, Tanzania, Uganda, Zambia, Zimbabwe



## CHAPTER 3 ANNEX

### Further information on bodies within the PFM organisational architecture

#### International sponsors

##### **World Bank**

3A.1 The Bank provides finance and advice to developing countries for the purposes of economic development and eliminating poverty, through a family of five international organisations: International Bank for Reconstruction and Development (IBRD); International Development Association (IDA); International Finance Corporation (IFC); Multilateral Investment Guarantee Agency (MIGA); International Centre for Settlement of Investment Disputes (ICSID). The World Bank Institute (WBI) is the capacity development arm of the World Bank, and helps countries share and apply global and local knowledge to meet development challenges. WBI builds capacity for development by providing learning programmes and policy advice on economic management, financial and private sector development and governance.

##### **International Monetary Fund**

3A.2 The International Monetary Fund (IMF) was established to promote international monetary cooperation, exchange stability, and orderly exchange arrangements; to foster economic growth and high levels of employment; and to provide temporary financial assistance to countries to help ease balance of payments adjustment. It has a PFM Division within the Fiscal Affairs Department.

##### **Donors**

3A.3 Individual countries and groupings such as the European Union maintain programmes of assistance that express their own governmental priorities. Within broad aims such as the Millennium Development Goals they may focus on defined regions or substantive priorities, for example, water and sanitation or supporting small businesses, and they may be involved in multilateral programmes. Regional emphases may reflect historical cultural ties. Countries may differ in the balance they strike between relief and tackling the causes of poverty and their commitment to building global partnerships for those working on development.

##### **OECD-DAC (Development Assistance Committee)**

3A.4 The Paris Declaration (2005) asserted that a robust public financial management (PFM) system is vital to the effectiveness of aid funds. Following the Declaration, the OECD-DAC worked, to help partners and donors alike fulfil their commitments and to share PFM knowledge among donors and partner countries, through a Joint Venture on Public Financial Management. A PFM Task Force has subsequently been established to support the Working Party on Aid Effectiveness. The OECD itself supports member governments (mainly high income countries) to foster prosperity and fight poverty through economic growth and financial stability, with technical information and advice. It has partnerships with a number of non-member countries.

## Others

3A.5 Other bodies with global reach may mobilise funds from sources different to those of the government subscribed organisations described above. They may also complement regionally based donor institutions, such as multilateral development banks (MDBs) or the European Commission (EC). The United Nations organisations, and bodies such as international charities and emergency relief organisations, have targeted or self-selected objectives. These may be general, such as the relief of poverty; sectoral, for example focussing on children, health or refugees; or may relate to more specific activities such as providing medical assistance. These bodies form part of the organisational architecture because they inject very large amounts of funding, and in countries where governments are seen as having weak capacity to implement assistance effectively, they may be the chosen conduit for action. They are therefore part of the landscape in addressing donor coordination.

## Global bodies

3A.6 A number of umbrella organisations have been set up at global level by finance professionals to promote specific topics, to disseminate knowledge and to uphold the professional standards and status of their dispersed membership. The formulation of common standards and practices is the most notable function since this supports a baseline of understanding and accountability, of particular relevance to institutions, businesses and processes that operate across national boundaries. Much of this activity is driven by organisations rooted in the private sector.

3A.7 By definition, the development community operates internationally. It has also come together to develop some public financial management tools to facilitate understanding, reduce duplication and ease the compliance burden for countries. Some major groupings are noted here, but there are also specific initiatives that address individual PFM themes such as budgeting.

### **The Chartered Institute of Public Finance and Accountancy (CIPFA)**

3A.8 CIPFA is one of the leading professional accountancy organisations in the UK and the only major specialist in the world devoted to excellence in public sector governance and financial management. It is responsible for the education and training of professional accountants and for their regulation through setting and monitoring professional standards. Uniquely among the professional accountancy bodies in the UK, CIPFA has responsibility for setting accounting standards for local government, a significant part of the economy. CIPFA also undertakes training for public sector practitioners, supports improvement networks and continuous professional development through publications and events, and advises on public finance issues in the UK and internationally. CIPFA is a founding member of IFAC, has an increasing portfolio of advisory positions in international fora and works in partnership and collaboration on improving public financial management globally.

### **International Federation of Accountants (IFAC)**

3A.9 IFAC is the global organisation for the accountancy profession. IFAC develops international standards on ethics, auditing and assurance, education, and public sector accounting standards. It also issues guidance to support professional accountants in business, small and medium practices, and developing nations. A membership of 159 members and associates in 124 countries represents 2.5 million accountants employed in public practice, industry and commerce, government and academia.

3A.10 There are four standards setting Boards designated by, and operating independently under the auspices of, the International Federation of Accountants (IFAC):

The International Accounting Education Standards Board (IAESB).

- The International Accounting Education Standards Board (IAESB)
- The International Auditing and Assurance Standards Board (IAASB).
- The International Ethics Standards Board for Accountants (IESBA).
- The International Public Sector Accounting Standards Board (IPSASB).

3A.11 The International Public Sector Accounting Standards Board (IPSASB) seeks to serve the public interest by developing high quality accounting standards for use by public sector entities around the world in the preparation of general purpose financial statements. This is intended to enhance the quality and transparency of public sector financial reporting and strengthen public confidence in public sector financial management. In pursuit of this objective, the IPSASB supports the adoption of international public sector accounting standards and the convergence of accounting and statistical bases of financial reporting where appropriate. The Professional Accountants in Business (PAIB) Committee also provides resources and facilitates the exchange of knowledge and best practices. In support of public sector activities its membership obligations include a requirement for IFAC professional accountancy organisation members to promote, incorporate, and assist in implementing International Public Sector Accounting Standards (IPSAS).

3A.12 The Developing Nations Committee (DNC) supports the development of the accountancy profession and capacity building worldwide and provides input to international standard setters to make them aware and give due consideration to issues relevant to the profession in developing nations. IFAC recognises a number of Acknowledged Accountancy Bodies and Recognised Regional Organisations.

### **Public Expenditure and Financial Accountability Initiative (PEFA)**

3A.13 PEFA was developed to provide a shared pool of information on PFM that can facilitate dialogue on reform priorities among domestic and external stakeholders. It was established in 2001 as a multi-donor partnership committed to a set of core values linked to a Strengthened Approach to Supporting PFM Reform. Its objectives are formulated in a manner that: encourages country ownership; reduces the transaction costs to countries; enhances donor harmonisation; allows monitoring of progress of country PFM performance over time; addresses developmental and fiduciary concerns; facilitates improved impact of reforms.

3A.14 PEFA supports the PEFA Framework, officially known as the PFM Performance Measurement Framework, which seeks to provide an integrated and harmonised approach for measuring and monitoring PFM performance progress, while also helping focus support on country-led PFM reform programmes. The Framework covers the full budget cycle. PEFA partners are: the World Bank, the European Commission, the UK's Department for International Development, the Swiss State Secretariat for Economic Affairs, the French Ministry of Foreign Affairs, the Royal Norwegian Ministry of Foreign Affairs and the International Monetary Fund.

## **International Organisation of Supreme Audit Institutions (INTOSAI)**

3A.15 INTOSAI operates as an umbrella organisation for the government external audit community. INTOSAI provides an institutionalised framework for supreme audit institutions (SAIs) to promote development and transfer of audit knowledge, improve government auditing worldwide and to enhance the professional capacities, standing and influence of member SAIs in their respective countries. It has special consultative status with the Economic and Social Council of the United Nations. INTOSAI's four goals are Professional Standards; Capacity Building; Knowledge Sharing and being a Model International Organisation. As part of its Capacity Building function, INTOSAI seeks to develop partnerships with international development organisations, and sponsors the INTOSAI Development Initiative (IDI) that aims to develop institutional capacity of SAIs on a needs based, collaborative and sustainable basis. INTOSAI also issues the International Standards of SAIs (ISSAI). INTOSAI has 189 full members and three associated members.

### **Other**

3A.16 Other bodies perform a range of important functions in the PFM architecture. They may focus on a topic, such as the International Budget Project; or function, such as the scrutiny interest of Transparency International and the Commonwealth Secretariat and the involvement of commercial banks as part of the technical infrastructure of cash management in the public sector. There are also close relationships with other professional bodies working in the same territory, such as project management, change management and procurement.

## **Regional bodies**

### **Multilateral Development Banks (MDBs)**

3A.17 In addition to the funding organisations established under the aegis of the World Bank, a number of Multilateral Development Banks are regionally based, with shareholders drawn from the region and from partner countries. Their purpose is to promote economic and social development through loans, very long term loans (credits) at below market interest rates, equity investment and technical assistance, sometimes grant aided. The term Multilateral Development Bank typically refers to the four Regional Development Banks: the African Development Bank (AfDB), the Asian Development Bank (ADB), the European Bank for Reconstruction and Development (EBRD) and the Inter-American Development Bank Group (IDB). Other Multilateral Financial Institutions lend to developing countries, amongst them the European Investment Bank (EIB), the Islamic Development Bank (ISDB), the OPEC Fund for International Development, the International Fund for Agricultural Development (IFAD), the Arab Fund for Economic and Social Development (AFESD) and the Nordic Development Fund. Other sub-regional development finance institutions include the East and West African Development Banks, the Caribbean Development Bank (Caribank) and the Central American Bank for Economic Integration (CABEI).

### **Regional Organisations and Accountancy Groupings**

3A.18 The accountancy profession has established a strong network at both regional and country level. Regional bodies include the umbrella organisations for recognised national associations of accounting professionals. Their purpose is to support professional advancement and continuous development, to exchange technical information and best practice and undertake research, and to establish a medium for closer relations, regional cooperation, and mutual assistance among members. These organisations do not have a distinctively public finance focus, and do not themselves confer accountancy qualifications.

- 3A.19 The various organisations are charted in the section on regional mapping, but they include a large number of bodies such as the Confederation of Asian and Pacific Accountants (CAPA), the South Asian Federation of Accountants (SAFA), Accountancy Europe, the Federation of Mediterranean Certified Accountants, the Fédération Internationale des Experts Comptables Francophones, the Arab Society of Certified Accountants, the Eastern Central and Southern African Federation of Accountants (ECSAFA), the Association of Accountancy Bodies in West Africa (ABWA), Gulf Cooperation Council Accounting and Auditing Organization (GCCAAO), Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI).
- 3A.20 This is not an exhaustive list: it is given here in some detail to illustrate that there is a considerable array of organisations. Their place in the PFM system is, however, dependent on the nature and quality of their contribution to financial management specifically in the public service arena.
- 3A.21 More particular to government practice are the associations of Accountants General and practice leaders, whose purpose is to develop professional practice through training, research, technical cooperation and the exchange of ideas, to develop and promote accounting standards in Government, adapted to the requirements of member countries, and to oversee the quality of implementation. Examples include the Association of Government Accounts Organisations of Asia (AGAOA), and the Federation of Accountants-General and Auditors-General of West Africa (FAAGWA). The Eastern and South African Association of Accountants General (ESAAG) is a cooperative effort between Accountants General, which seeks to strengthen and integrate the government accounting profession, support improvement of democratic processes through transparency and accountability, and assist each other in improving government accounting systems in order to produce financial statements to international standards.

### **Supreme Audit Institutions Regional Working Groups**

- 3A.22 Supreme Audit Institutions (SAIs) are also well represented in regional bodies. There are seven Regional Working Groups gathered under INTOSAI, that provide training to improve the quality and performance of government auditors, promoting the exchange of information and cooperation among member institutions, and bringing together a membership from different countries. These are Asia (ASOSAI), which, for example, has 43 SAI members, EUROSAI, AFROSAI (with three language-based sub-groups), ARABOSAI, CAROSAI (Latin America and Caribbean), ECOSAI and ASOSAI (Middle East and North Africa). SAIs may also be buttressed by regional organisations aimed at strengthening the institutions such as the Conseil Régional de Formation des Institutions Supérieures de Contrôle des Finances Publiques de l'Afrique Francophone Subsaharienne (CREFIAP) and the Southern African Institute of Government Auditors (SAIGA).
- 3A.23 Other groupings, such as the European Group of Auditors Oversight Bodies and the Association des Institutions Supérieures de Contrôle ayant en Commun l'Usage du Français oversee the quality of auditing bodies in the economy at large, through the approval and registration of statutory auditors and audit firms; adoption of standards on ethics, internal quality control of audit firms and auditing; and continuous education, quality assurance and investigative and disciplinary systems. These impact indirectly on public sector financial management through endorsement of international standards of auditing.
- 3A.24 Regional assurance bodies may also be established for specific functions, such as the European Court of Auditors' assurance role in relation to the regularity and quality of the European Community's financial conduct, or the European Anti-Fraud Office (OLAF).

## Internal audit

3A.25 The Institute of Internal Auditors has members throughout the world who participate through their local chapters.

3A.26 Four regional bodies at present have formal agreements of cooperation with the IIA:

- The Asian Confederation of Institutes of Internal Auditors (ACIIA).
- The European Confederation of Institutes of Internal Auditing (ECIIA).
- Federación Latinoamericana de Auditores Internos (FLAI).
- Union Francophone de l'Audit Interne (UFAI).

## Learning associations

3A.27 OECD-DAC recognises initiatives to promote south-south learning as one of the tools to reflect on and spread good practice. Their significance to broader PFM success will be very much dependent on the quality and capacity of individual groups. Below are some of the better known examples.

### Collaborative Africa Budget Reform Initiative (CABRI)

3A.28 CABRI is a pan-African network of senior budget officials in ministries of finance and/or planning. Its aim is to contribute towards the efficacy of public finance management in Africa. CABRI was officially launched in collaboration with the AfDB in 2008.

### Public Expenditure Management Peer Assisted Learning network (PEMPAL)

3A.29 PEMPAL has created a network of public expenditure management professionals in various governments in the Europe and Central Asia (ECA) region. These professionals can benchmark their PEM systems against one another and pursue opportunities for 'peer' learning, as a means to enhance knowledge transfer.

## Training providers

3A.30 Most training providers in the field of PFM are thought to be single-country based. However, international firms offer consultancy and training at all levels. There are also some regional providers, for example, the Eastern and Southern African Management Institute (ESAMI), a pan-African Regional Management Development Centre; and the Institute of Development Management (IDM), a partnership of the public sector, private organisations and industry in Botswana, Lesotho and Swaziland.

## National bodies

### Central government

3A.31 Central government plays a leadership role in PFM, as a legislature, setting the legal framework for PFM, and as scrutineer, both by full Parliament and through parliamentary scrutiny committees such as a Public Accounts Committee. Central government's operational PFM functions are generally led by the Ministry of Finance.

### Ministry of Finance

3A.32 The functions of the Ministry of Finance have been described as four business lines:

- Macroeconomic coordination and policy.
- Budget formulation.
- Budget execution (including treasury, accounting policy, maintaining the public accounts, debt and cash management).
- Revenue policy and management.



3A.33 Accompanying responsibilities may include financial sector regulation, standard setting, aid management, government personnel management, procurement, oversight of state owned enterprises, government internal audit and regional economic cooperation. Because of their oversight role they may also be the champions of PFM in their countries across the whole public sector. In some countries some of these functions may be exercised by other central government departments, such as the Ministry of Planning in relation to capital projects.

### **Central bank**

3A.34 A central bank is the entity responsible for the monetary policy of a country or of a group of member states. It is a bank that can lend to other banks in times of need. Its primary responsibility is to maintain the stability of the national currency and money supply, but more active duties include controlling subsidised-loan interest rates, and acting as a lender of last resort to the banking sector during times of financial crisis. It may also have supervisory powers, to ensure that banks and other financial institutions do not behave recklessly or fraudulently.

3A.35 Functions of a central bank (not all functions are carried out by all banks) may include:

- Implementing monetary policy.
- Controlling the nation's money supply.
- The Government's banker and the bankers' bank ("lender of last resort").
- Managing the country's foreign exchange and gold reserves and the Government's stock register.
- Regulating and supervising the banking industry.
- Setting the official interest rate – used to manage both inflation and the country's exchange rate – and ensuring that this rate takes effect via a variety of policy mechanisms.

3A.36 It is arguable that these functions are not directly related to financial management of public sector resources and that central banks should not form part of the Organisational PFM Architecture defined in this paper. They are included here because of their relevance to national budgeting and funding strategies. Their absence from the list would itself prompt question and their presence here allows room for that debate.

### **Professional Accountancy Organisations**

3A.37 Organisations equipped to support the professionalisation of finance specialists are those that perform the functions of awarding qualifications by examination, requiring continuous professional development and maintaining a code of ethics and discipline. Other functions include interpreting and maintaining uniform standards of accounting, enabling and supporting accountability. There is a very large number of country based accountancy organisations. The primary, if not sole, focus of most of these bodies is the private sector and in many there is little if any public sector expertise, although IFAC has sought to expand the profession to include the public sector and to provide guidance to accomplish this successfully, including publishing a toolkit on 'Establishing and Developing a Professional Body'. The South African Institute for Public Finance and Auditing (IPFA) is the only public sector specialist 'professional' institute outside the UK, and is being assisted by CIPFA to progress towards IFAC membership.

3A.38 It is sometimes argued that accounting is a universal discipline and that the distinction between public sector and commercial accountancy is immaterial. This misses a very important point. Financial accounting in both sectors does share many concepts and practices. But accounting and public financial management are not at all the same. As the PFM Process model described earlier in this paper shows, accounting, reporting and providing assurance on financial statements are only a small part of PFM. Other PFM functions like resource management, poverty sensitive charging mechanisms and anti-fraud controls are distinctive contributions to good quality affordable public services.

### **Local training providers**

3A.39 There are a very large number of training providers, with some specialising in finance training although few have real centres of excellence or expertise in PFM. Universities and similar bodies play a significant role, many offering training and related services, including consultancy, to the public sector.

### **Supreme Audit Institutions (SAIs)**

3A.40 SAIs carry out the external audit of public sector bodies and are one of the key links in the formal system of financial accountability in most countries. The strengthening of partner country SAIs is therefore often seen as a lever for improvements to the effectiveness of PFM systems as a whole.

### **Sub-national bodies**

3A.41 Further down the organisational hierarchy the complexity and variety of the landscape increases greatly and generalisation becomes more problematic. Organisations funded by the public purse in order to provide public services can take a number of shapes, such as elected bodies with their own taxation and borrowing powers, including federal states or provinces. They may have different ranges of responsibilities, for example, whether they cover secondary education or health facilities, whether they are multi-purpose or single service providers, whether they have general powers of competence or are more narrowly governed. There may be a number of tiers of sub-national authorities. They may take different legal forms, such as corporations or local governments. They may also be deconcentrated arms of the national administration. In the case of publicly owned commercial enterprises, their internal operations are not within the scope of this paper, although the public needs still to be satisfied that its ownership stake is being well managed.



## Abbreviations used

<b>AAOIFI</b>	Accounting and Auditing Organisation for Islamic Financial Institutions
<b>ABWA</b>	Association of Accountancy Bodies in West Africa
<b>ACAG</b>	Australasian Council of Auditor Generals
<b>ACIIA</b>	Asian Confederation of Institutes of Internal Auditors
<b>AFAANZ</b>	Accounting and Finance Association of Australia and New Zealand
<b>ADB</b>	Asian Development Bank
<b>AfDB</b>	African Development Bank
<b>AFESD</b>	Arab Fund for Economic and social Development
<b>AFROSAI (-E)</b>	African Organisation of Supreme Audit Institutions (English speaking)
<b>AGA</b>	Accountable Grant Agreement
<b>AGAOA</b>	Association of government Accounts Organisations of Asia
<b>AISCCUF</b>	Association of SAI's using French language (Associate member of INTOSAI)
<b>ARADO</b>	Arab Administration Development Organisation
<b>ARABOSAI</b>	INTOSAI working group for Arabian region
<b>ASOSAI</b>	INTOSAI working group for Asian region
<b>CABEI</b>	Central American Bank for Economic Integration
<b>CABRI</b>	Collaborative Africa budget Reform Initiative
<b>CAFRAD</b>	African Training and Research Centre in Administration for Development
<b>CAPA</b>	Confederation of Asian and Pacific Accountants
<b>Caribank</b>	Caribbean Development Bank
<b>CAROSAI</b>	INTOSAI working group for Latin America and Caribbean region
<b>CIPFA</b>	Chartered Institute of Public Finance and Accountancy
<b>CREFIAF</b>	Conseil Régional de Formation des Institutions Supérieures de Contrôle des Finances Publiques de l'Afrique Francophone Subsaharienne
<b>DAC</b>	Development Assistance Committee
<b>DFID</b>	Department for International Development (UK)

<b>EBRD</b>	European Bank of Reconstruction and Development
<b>EC</b>	European Community
<b>ECA</b>	Europe and Central Asia
<b>ECIIA</b>	European Confederation of Institutes of Internal Auditing
<b>ECOSAI</b>	Economic Cooperation Organisation Supreme Audit Institutions, currently comprises SAIs of Azerbaijan, Iran, Kazakhstan, Kyrgyzstan, Pakistan, Tajikistan, Turkmenistan, Turkey and Uzbekistan.
<b>ECSAFA</b>	Eastern Central and Southern African Federation of Accountants
<b>EFSUR/EFISUL</b>	Latin American Organisation of Auditor Generals
<b>EIB</b>	European Investment Bank
<b>ESAAG</b>	Eastern and South African Association of Accountants General
<b>ESAMI</b>	Eastern and Southern African Management Institute
<b>FAAGWA</b>	Federation of Accountants-General and Auditors-General of West Africa
<b>FIGE</b>	La Federation des Inspecteurs Generals de l'Etat
<b>FECECOP</b>	Central American Federation of Public Accountants
<b>FEE</b>	Federation of European Accountants
<b>FIDEF</b>	International Federation of Francophone Accountants (IFAC recognised)
<b>FLAI</b>	Federación Latinoamericana de Auditores Internos
<b>GCCAAO</b>	Gulf Cooperation Council Accounting and Auditing Organisation
<b>IIA</b>	Institute of Internal Auditors
<b>IAASB</b>	International Auditing and Assurance Board
<b>IAESB</b>	International Accounting Education Standards Board
<b>ICAC</b>	Institute of Chartered Accountants of the Caribbean
<b>ICAEC</b>	Institute of Chartered Accountants of the Eastern Caribbean
<b>IDB</b>	Inter-American Development Bank Group
<b>IDM</b>	Institute of Development Management
<b>IESBA</b>	International Ethics Standards Board for Accountants
<b>IFAC</b>	International Federation of Accountants
<b>IFAD</b>	International Fund for Agricultural Development
<b>IIA</b>	Institute of Internal Auditors

<b>IMF</b>	International Monetary Fund
<b>INTOSAI</b>	International Organisation of Supreme Audit Institutions
<b>IPSAS (B)</b>	International Public Sector Accounting Standards (Board)
<b>ISA</b>	International Standards on Auditing
<b>ISDB</b>	Islamic Development Bank
<b>MEFMI</b>	Macroeconomic and Financial management Institute of Eastern and Southern Africa
<b>MDBs</b>	Multilateral Development Banks
<b>OCCEFS</b>	Central American and Caribbean Organisation of SAIs
<b>ODI</b>	Overseas Development Institute
<b>OECD</b>	Organisation for Economic Cooperation and Development: Development Assistance Committee (DAC); Centre for Tax Policy and Administration (CTPA); Senior Budget Officials Network (SBO).
<b>OLAF</b>	European Anti-Fraud Office
<b>PAIB</b>	Professional Accountants in Business
<b>PASAI</b>	Pacific Organisation of Supreme Audit Institutions (INTOSAI Working Group)
<b>PEFA</b>	Public Expenditure Financial Accountability
<b>PEMPAL</b>	Public Expenditure Management Peer Assisted Learning network
<b>PFM</b>	Public Financial Management
<b>PIFC</b>	Public Internal Financial Control
<b>SAFA</b>	South Asian Federation of Accountants
<b>SAI</b>	Supreme Audit Institution
<b>SAIGA</b>	Southern African Institute of Government Auditors
<b>SCDI</b>	Staff Capacity Development Initiative
<b>UFAI</b>	Union Francophone de l'Audit Interne
<b>UK</b>	United Kingdom
<b>WSA</b>	Whole System Approach

### Glossary

**Accountability/public accountability:** the obligation of public sector organisations to citizens and other stakeholders to account, and be answerable to, democratically chosen supervisory bodies, for their policies, decisions, and actions, particularly in relation to public finances.

**Accounting/budget classification:** standardisation of the principal headings under which income and expenditure are grouped to help aggregate, analyse and exchange financial information in a meaningful way.

**Accrual based information**

Accrual based information shows income, expenses and related asset and liability accounting that reflect the underlying transactions or economic events, rather than being recorded at the time of the receipt or payment of cash.

**Annual governance statement or report:** the mechanism by which an organisation publicly reports on its governance arrangements each year.

**Arrangements:** includes political, economic, social, environmental, legal, and administrative structures and processes, and other arrangements.

**Assurance:** an assurance engagement in which a practitioner expresses a conclusion designed to enhance the degree of confidence of the intended users, other than the responsible party, on the outcome of the evaluation or measurement of a subject matter against criteria. Under the IAASB's *International Framework for Assurance Engagements*, there are two types of assurance engagements a practitioner is permitted to perform: a reasonable assurance engagement and a limited assurance engagement. For more information, see the IAASB's Glossary of Terms in the *2013 Handbook of International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements*.

**Audit Committee:** the governance group independent from the executive charged with providing oversight of the adequacy of the risk management framework, the internal control environment, and integrity of financial reporting.

**Benefits:** outcomes that are to the benefit of a public sector organisation's stakeholders that can be of an economic, social, or environmental nature.

**Budget documents:** financial expressions of service plans that set the limits of expenditure authorization for managers.

**Business model:** An organisation's system of transforming inputs through its business activities into outputs and outcomes that aims to fulfil the organisation's strategic purposes and create value over the short, medium and long term.

**Capabilities:** the professional knowledge, professional skills, and professional values, ethics, and attitudes required to demonstrate competence.

**Capacity:** the underlying governance and staffing structures of a public sector organisation necessary to remain fit for purpose — being able to deliver the planned services.

**Capital(s)/resource(s):** stocks of value on which all organisations depend for their success as inputs to their business model, and which are increased, decreased, or transformed through the organisation's business activities and outputs.

**Chief financial officer:** The term used for the entity's most senior executive role charged with leading and directing financial strategy and operations.

**CIPFA's FM Model:** The FM Model is an online analytic toolkit which is aimed at helping public bodies transform and improve their financial performance.

**Code of Conduct:** principles, values, standards, or rules of behaviour that guide the decisions, procedures, and systems of an organisation in a way that contributes to the welfare of its key stakeholders and respects the rights of all constituents affected by its operations.

**Commissioning** – depending on the context, either:

- the process of deciding what work or services are needed; whether they should be sought by delegation, the use or setting up of some new body, or by competition; and, if by competition, what sort of contract to use
- in care, the collective term for all the process involved in meeting an assessed need – deciding which service is needed to meet it, and specifying this service, procuring it and monitoring it.

**Conformance:** compliance with laws and regulations, best practice governance codes, accountability, and the provision of assurances to stakeholders in general. The term can refer to internal factors defined by the officers, shareholders, or constitution of an organisation, as well as external forces, such as consumer groups, clients, and regulators.

**Cyber security:** a specialised form of ICT security specifically focused on (external) networks and internet connections (addressing threats from "cyber space").

**Effectiveness:** the relationship between actual results and service performance objectives in terms of outputs or outcomes. Effectiveness describes the relationship between an organisation's actual results and its service performance objectives.

**Efficiency:** the relationship between inputs and outputs, or inputs and outcomes. An efficiency indicator can be used to show when a service is being provided more (or less) efficiently compared to previous reporting periods, expectations, comparable service providers, or benchmarks derived, for example, from best practices within a group of comparable service providers.

**Ethical values:** standards or principles that are commonly considered to be good. Ethical values can change over time and differ between societies or cultures.

**Ethics:** a system of moral principles by which human actions may be judged.

**Executive:** executive management and/or chief executive.

**External audit:** independent, qualified person(s) who carry out a review to give assurance to external stakeholders on an organisation's financial statements, systems, and processes.

**Financial strategy:** identifies how sufficient resources will be made available to support the objectives in the entity's strategic plan (the plan which sets out the entity's mission, objectives and priorities for a defined time scale, such as three years).

**Fiscal policy:** the policy for adjusting spending and tax rates by a government in order to regulate the economy.

**Governance:** comprises the arrangements\* put in place to ensure that the intended outcomes for stakeholders are defined and achieved.

\*includes political, economic, social, environmental, administrative, legal, and other arrangements.

**Governing body:** the person(s) or group with primary responsibility for overseeing an organisation's strategic direction, operations, and accountability.

**Independence is:**

**a.** Independence of mind—the state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgment, thereby allowing an individual to act with integrity and exercise objectivity and professional scepticism.

**b.** Independence in appearance—the avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude, weighing all the specific facts and circumstances, that a firm's, or a member of the audit or assurance team's, integrity, objectivity or professional scepticism has been compromised.

**Input(s):** capitals/resources used to generate and deliver services to achieve intended outcomes.

**Institutional stakeholders:** the other organisations/bodies that a public sector organisation needs to work with to improve services and outcomes, or organisations to which it is accountable.

**Integrated report:** a concise communication about how an organisation's strategy, governance, performance, and prospects, in the context of its external environment, lead to the creation of value in the short, medium, and long term.

**Integrated reporting:** a process founded on integrated thinking that results in a periodic integrated report by an organisation about value creation over time and related communications regarding aspects of value creation.

**Integrated services** – two or more services which are functions of different bodies, when provided seamlessly by one of them, or by a joint body.

**Integrated thinking:** The active consideration by an organization of the relationships between its various operating and functional units and the capitals that the

organization uses or affects. Integrated thinking leads to integrated decision making and actions that consider the creation of value over the short, medium or long term.

**Integrity:** holders of public office must avoid placing themselves under any obligation to people or organisations that might try inappropriately to influence them in their work. They should not act or take decisions to gain financial or other material benefits for themselves, their family, or their friends. They must declare and resolve any such interests and relationships.

**Internal auditing:** an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

**Internal control:** the term "internal control" can have multiple meanings, including:

- a system or process: the entirety of an organisation's system of internal control, i.e., an organisation's internal control system
- an activity or measure: the actual measure to treat risks and to effect internal control, i.e., individual internal controls
- a state or outcome: the outcome of the internal control system or process, i.e., an organisation achieving or sustaining appropriate or effective internal control.

See *Evaluating and Improving Internal Control in Organizations* (IFAC, 2012) for a more detailed definition

**Interventions:** the means by which the public sector achieves its outcomes. These include enacting legislation or regulations; delivering goods and services; redistributing income through mechanisms such as taxation or social security payments; and the ownership of assets or entities, such as state-owned enterprises.

**Leadership team:** comprises the governing body and management team.

**Management:** person(s) with executive responsibility for the conduct of the public sector organisation's operations.

**Management team:** group of executive staff comprised of senior management charged with the execution of strategy.

**Material/materiality:** A matter is material if it could substantially affect the organisation's ability to create value in the short, medium or long term.

### **Ministry of finance**

The government department dealing with finance may also be known as the treasury. They have the following functions :

- Macro fiscal coordination and policy
- Budget formulation
- Budget execution
- Revenue policy and management.

**Organic budget law:** creates a legal framework regulating a state budget preparation process. The law sets out a schedule and procedures for the preparation, approval and execution of the budget and arrangements for accountability and the preparation of final accounts.

**Organisational capital:** knowledge based intangibles available for a public sector entity to use. Examples include tacit knowledge, systems, procedures and protocols.

**Outcome(s):** the impacts on society, which occur as a result of the organisation's outputs, its existence, and operations. There may be a strong, direct causal link between an organisation's actions and its achievements with respect to outcomes, but this will not always be the case. Factors beyond the organisation's control may intervene to either hinder or facilitate the achievement of outcomes.

**Outcome indicators:** measures to describe how well an entity is achieving its defined outcomes. Indicators can be quantitative or qualitative

**Outcome target/Service performance objective:** a description of the planned result(s) that an organisation is aiming to achieve expressed in terms of inputs, outputs, outcomes, efficiency, or effectiveness. Service performance objectives may be expressed using performance indicators of inputs, outputs, outcomes, efficiency, or effectiveness.

**Output(s):** an organisation's products and services and any by-products and waste.

**Output measures:** Measures to describe how well outputs, such as services, are performing in relation to their objectives. For example, performance indicators.

**Outturn:** An entity's year – end position.

**Performance:** an organisation's achievements relative to its strategic objectives and its outcomes in terms of its effects on the capitals.

**Performance indicators:** quantitative measures, qualitative measures, and/ or qualitative discussions of the nature and extent to which an organisation is using resources, providing services, and achieving its service performance objectives. The types of performance indicators used to report service performance information relate to inputs, outputs, outcomes, efficiency, and effectiveness.

**Performance management system:** mechanisms to monitor service delivery throughout all stages in the process, including planning, specification, execution, and independent post-assessment review.

**Public financial management (PFM):** the system by which financial resources are planned, directed, and controlled to enable and influence the efficient and effective delivery of public service outcomes. A PFM system can be described in progressive levels of detail as follows:

- **PFM Elements:** a grouping of PFM processes, each of which performs a different function in the overall PFM architecture.
- **PFM Sub-elements:** the high level processes that actualise each element

**Public interest:** the net benefits derived for, and procedural rigor employed on behalf of all society in relation to any action, decision, or policy.



**Public sector entity** : One or more legal bodies managed as a coherent operational entity with the primary objective of providing goods or services that deliver social benefits for society.

**Public sector reporting entity**: a government or other public sector organisation, programme or identifiable area of activity that prepares general purpose financial reports.

**Public sector services**: all the outputs of a public sector organisation, such as products, services, or regulation geared toward achieving certain outcomes.

**Reporting process**: the people and processes involved in the preparation, review, approval, audit (when relevant), analysis, and distribution of a public sector organisation's reports, both internal and external. All sections in the process need to be robust and closely connected to yield effective reports.

**Reporting unit**: an individual public sector entity for which discrete financial (and non-financial) information is available and used by management to assess performance.

**Risk**: International Organization for Standardization (ISO) *Standard 31000:2009— Risk objectives*," defines risk as "the effect of uncertainty on objectives", which can be positive or negative.

**Risk management**: ISO *Standard 31000:2009—Risk Management* defines risk management as "coordinated activities to direct and control an organization with regard to risk."

**Rule of law**: observing legal requirements. The rule of law also implies having effective mechanisms to deal with breaches of legal and regulatory provisions.

**Scrutiny**: Scrutiny of PFM processes, outside executive responsibility, can oversee, influence and challenge the allocation of resources and the administration of public sector finances.

**Social enterprise**: a body which:

- carries on a business for some specified social or environmental purpose
- devotes the greater part of any surpluses to achieving this purpose and
- depends primarily on trading for this purpose; and not on grants, covenants or donations

**Staff mutuals**: a loose collective term for bodies formed by buy-outs in which staff have had some part.

**Stakeholder**: any person, group, or entity that has an interest in a public sector organisation's activities, resources, or output, or that is affected by that output. Stakeholders can include regulators, shareholders, debt holders, employees, customers, suppliers, advocacy groups, governments, business partners, and society as a whole.

**Stakeholder engagement**: communication and consultation between a public sector organisation and the internal and external stakeholders it engages with.

**Stakeholder value**: organisational value that is generated for stakeholders by creating, implementing, and managing effective strategies, processes, activities, assets, etc.

Sustainable value creation for stakeholders occurs when the benefits to them are greater than the resources they expend. Value is generally measured in financial terms, as in the case of shareholders, but it can also be measured as a societal or environmental benefit, as in the case of both shareholders and other stakeholders.

**Strategic planning:** a process by which an organisation's vision is translated into defined objectives and associated steps to achieve them.

**Strategy:** long-term plan or policy.

**Stewardship:** responsible planning, management, and accountability of the use and custody of a public sector organisation's resources.

**Supreme audit institution:** carries out the external audit of public sector bodies and is a key link in the formal system of financial accountabilities in most countries.

**Sustainability:** the capacity of an individual entity, community, or global population to continue to survive successfully by meeting its intended economic, environmental, and social outcomes while living within its resource limits.

**Tone at the top:** the words and deeds of an organisation's governing body and senior management that determine its values, culture, and the behaviour and actions of individuals; also defined as "leading by example."

**Transparency:** openness about the outcomes a public sector organisation is pursuing, the resources necessary or used, and the performance achieved.

**Useful information:** information that is relevant to users and faithfully represents what it purports to represent. The usefulness of information is enhanced if it is comparable, verifiable, timely, and understandable.

**Value for money:** achieving "value for money" is often described in terms of economy, efficiency, and effectiveness.

**Values:** what an entity and individuals stand for. Also described as standard operating principles.

**Value creation:** The process that results in increases, decreases or transformations of the capitals caused by the organisation's business activities and outputs.

**Whistle blower :** Term for individual or group drawing attention to unacceptable or high risk practices through a formal process known as 'whistle blowing'

**Whole-system approach/ Whole-system approach to public financial management:** based on the argument that public financial management (PFM) will be more effective and more sustainable if there is a balance across the full range of PFM processes, buttressed by effective national, sub-national, and supra-national organizations and, in the context of international development, supported by relevant donor contributions. It defines how the key constituent parts (such as external assurance and scrutiny, financial reporting, and audit standards) contribute to the integrity of the whole system.