ST/ESA/PAD/SER.E/14

Department of Economic and Social Affairs
Division for Public Economics and Public Administration

TRANSPARENCY AND ACCOUNTABILITY IN GOVERNMENT FINANCIAL MANAGEMENT

United Nations • New York, 1999

TABLE OF CONTENTS

NOTES

The designations employed and the presentation of material in this publication do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations concerning the legal status of any country, territory, city or area or of its authorities, or concerning the delimitation of its frontiers or boundaries.

The designations "developed" and "developing" economies are intended for statistical convenience and do not necessarily express a judgement about the stage reached by a particular country or area in the development process.

The term "country" as used in the text of this publication also refers, as appropriate, to territories or areas.

The term "dollar" normally refers to the United States dollar ($).

Comments and inquiries regarding this report may be directed to:

Mr. Guido Bertucci
Director, Division for Public Economics and Public Administration
Department of Economic and Social Affairs
United Nations, New York, N.Y. 10017
United States of America
Fax : 1-212-963-9681
Telex: 42231 UN U1

FOREWORD

The Ad Hoc Expert Group Meeting on Effecting Transparency and Accountability in Government Financial Management was held via the Internet from 23 to 30 June 1997 with nine financial management specialists from five countries in Africa and three United Nations Secretariat officials.

The Ad Hoc Expert Group Meeting was held as part of the Department of Economic and Social Affairs' ongoing programme to strengthen the financial management capacities of governments by improving government accounting and auditing systems and government financial controls for improved management of financial resources and greater accountability.

With the review of the public administration and development programme undertaken by the General Assembly, the critical importance of strengthening accountability and transparency was emphasized. General Assembly Resolution 50/225 (19 April 1996) recognized "that governments in all countries should make their procedures transparent in order to avoid and combat all acts of corruption."

The Ad Hoc Expert Group Meeting on Effecting Transparency and Accountability in Government Financial Management is the first Expert Group Meeting to have been held on-line via the Internet under the auspices of a General Assembly programme mandate. Because of the growing interest and demand for use of information technologies in developing countries, the final section of this report covers the technical side of the meeting so that the information and experience of conducting an official meeting on-line can be used in other programme areas.

Guido Bertucci
Director
Division for Public Economics and Public Administration
Department of Economic and Social Affairs

EXECUTIVE SUMMARY

The first on-line meeting of experts under United Nations auspices was an Ad Hoc Expert Group Meeting on Effecting Transparency and Accountability in Government Financial Management. The meeting was held in New York, Addis Ababa, Accra, Mbabane, Nairobi and Kampala from 23-30 June 1997. Out of nine African participants, eight were practitioners, mainly at the Accountant-General and Auditor-General level, and one was an academic.

The focus of the Meeting was on weaknesses in systems of accountability and transparency that facilitate unethical behaviour, and the aim was to suggest solutions to these weaknesses. This publication comprises a basic issues paper by the UN secretariat, eight country papers covering Ethiopia, Ghana, Kenya, Swaziland and Uganda, and the Report of the Experts. Comments on the conduct of on-line meetings are also included.

The Ad Hoc Expert Group Meeting attended by senior government accounting and auditing officials and one academician in the financial management field addressed the issues of accountability and transparency in specific financial management systems. One of the key observations made by the experts was that there is a critical need for governments and multilateral and bilateral donors to recognize the importance of the accounting and auditing systems and to dedicate resources and priorities to establishing sound, basic and timely systems.

The experts who participated in the Ad Hoc Expert Group Meeting focused their attention on malfeasance in government, compliance issues–both as regards government officials as well as donors–with national laws, rules and regulations, the need for long-term training initiatives, and the United Nations' role in assisting governments of developing countries. Specific recommendations were also made in the practical areas of improving transparency and accountability in cash management as well as parastatal management and divestiture programmes.

INTRODUCTION

The General Assembly, at its resumed fiftieth session on Public Administration and Development held in New York in April 1996, emphasized the critical importance of strengthening accountability and transparency. This Meeting discussed strengthening the financial management capacities of Governments by improving government accounting and auditing systems and government financial controls for improved management of financial resources and greater accountability.

The Meeting addressed the issues of accountability and transparency in specific financial management systems. It was attended by senior government accounting and auditing officials (see list of participants as Annex I) and an academician in the financial management field.

One of the key observations made by the experts was that there is a critical need for Governments and multilateral and bilateral donors to recognize the importance of the accounting and auditing systems and to dedicate resources and priorities to establishing sound, basic, timely systems.

The experts who participated in the Meeting focused their attention on malfeasance in government, issues of compliance by government officials and donors with national laws, rules and regulations, the need for long-term training initiatives, and the United Nations' role in assisting Governments of developing countries. Specific recommendations were also made in the practical areas of improving transparency and accountability in cash management as well as parastatal management and divestiture programmes.

The Ad Hoc Expert Group Meeting on Effecting Transparency and Accountability in Government Financial Management is the first expert group meeting to have been held on-line via the Internet under the auspices of the General Assembly programme mandate.

There is growing interest in, and demand for, the use of information technologies in developing countries. Accordingly, Part III of this report will cover the technical side of the meeting so that the information and experience of conducting an official meeting on-line may be used in other programme areas.

Terms of reference

In its resolution 50/225 on public administration and development (adopted on 19 April 1996), the General Assembly reaffirmed its belief that "democracy and transparent and accountable governance and administration in all sectors of society are indispensable foundations for the realization of social and people-centred sustainable development" and further stated that "Governments in all countries should make their procedures transparent in order to avoid and combat all acts of corruption."

The Ad Hoc Expert Group Meeting was aimed at obtaining the expert views of those involved in governmental financial management in developing countries to advise on system weaknesses. System weaknesses lend themselves to exploitation and create a conducive environment in which corruption may occur more readily. The underlying premise was that an individual official does not engage successfully in corrupt activity without finding a weakness in one of the financial management systems through which to conduct it. Thus, the focus was not on ethical behaviour of public servants which had been the subject of scrutiny in other fora, nor on the judicial process which succeeds or fails in prosecuting violators of established law and regulation, but on the weaknesses of systems which facilitate unethical behaviour despite an adequate legal framework. To our knowledge this approach has not been addressed in international fora focusing on corruption, transparency and accountability with respect to public financial management systems.[1] Finally, the intention was to focus on practical problems and on suggested solutions in a South-South, peer-to-peer collaborative framework. The Secretariat drafted an issues paper (See Annex III) aimed at initiating discussion.

The terms of reference of the Experts were as follows:

(a) To examine subsystems of the overall public financial management systems which are relatively weak and are therefore susceptible to exploitation or use as a vehicle for corrupt activity; and

(b) To propose remedies and practical solutions for strengthening key systems in order to assist Governments in restoring transparency and accountability.

Opening

The Meeting was opened on 23 June 1997 by the Moderator, Cheryl B. Larsen. She delivered a message from the Division Director, Guido Bertucci, welcoming participants to the historic event and advising experts that their substantive deliberations would benefit all countries facing problems of corruption which undermine transparency and accountability. Mr. Bertucci noted that solutions experts proposed would lend practical support to the efforts of Governments to address critical weaknesses in public financial management systems.

The meeting schedule is given in Annex II and follows the topics identified in the Secretariat's issues paper, which is in Annex III.   Annex IV contains specific country papers and the experts' responses to the issues paper.

The first topic covered weak accounting systems. It was noted that strengthening accounting systems was perceived to be a critical issue by Governments, civil society, or donors. The experts observed that accountability was as important for the United Nations as the preservation of human resources or peacekeeping, as a country's internal strength depends also on its financial and physical resources. If there were proper accountability for financial and physical resources, senior public officials would not be able to loot public properties and the treasury. Experts argued that officials know when there is inadequate recording of public financial resources. Accountability is lost when Governments fail to ensure that financial basics such as recording, calculating balances, summarizing receipts and expenditures and reporting to the people are not properly undertaken.

The second key topic concerned aid

[1] This type of inquiry was the subject of path-breaking work by Mr. Malcolm Sparrow of the John F. Kennedy School of Government, Harvard University, *License to Steal,* Westview Press, 1996.

management and the legal framework. There was intense and lengthy debate about donor accountability and mechanisms for ensuring that both donor officials and government officials comply with national laws, rules and regulations.

Other topics which were addressed in the on-line sessions were mechanisms for improving cash management and proposals for strengthening the financial control of state-owned enterprises and improving their relationship with Governments. The experience of a number of Governments of developing countries has been that loans and guarantees to parastatals have not been properly recorded and have become a major area for financial favouritism and deteriorating accountability.

The on-line sessions were supplemented by the Secretariat's issues paper which covered weaknesses in foreign exchange allocations, accounts payable, payroll, and procurement. In addition, country papers (Annex IV) highlighted a range of specific national concerns including public debt and investment, advances and loans, fixed assets, inventory, and pensions.

Attendance

The following Group members attended the on-line sessions: Mr. Ato Mammo Gitto Foli (Head, Department of Inspection, Ministry of Finance, Ethiopia); Mr. Assefa Desta (Deputy Auditor- General, Ethiopia); Mr. Raphael K. Tufuor (Deputy Controller and Accountant-General, Ghana); Mr. Daniel Mathokoza Dlamini (Auditor General, Treasury Department, Swaziland); Mr. David Duma Dlamini (Accountant-General,Treasury Department, Swaziland); Mr. David N. Nzomo (Professor, University of Nairobi, Kenya); Mr. Henry Kanyaihe Bamutura (Principal Accountant, Treasury, Uganda); and Mr. Singh Gurubachan (Director of Audit of Central Government Ministries, Office of the Auditor General, Uganda).

Ms. Cheryl B. Larsen (Moderator), Mr. Peter Heijkoop (Rapporteur), and Mr. Robert Rigolosi (Secretariat) of the Division for Public Economics and Public Administration provided secretariat services. It should also be noted that Mr. Osei Tutu Prempeh (Auditor-General, Ghana) was unable to attend the on-line sessions, but contributed one of the country papers (Annex IV).

I. CASE STUDY AND ON-LINE DISCUSSION KEY ISSUES

A. Priority and resources for core public financial management needs

Throughout the Meeting of Experts, participants observed that a significant contributing factor to the general systemic weakness in public financial management derives from the relatively low importance attached to financial management. It was noted that neither Governments, citizens and donors emphasize the critical importance of strong financial management systems.

Mr. David Nzomo (Kenya), reflecting after the first three days of discussion, opened session four with the following statements: "Before focusing on the draft report, three issues bother me and I would like to hear what others think: (a) The course of action that a national Government should take when aid agencies violate laws of the land; (b) Accountability of legislators to their constituencies; this in my view has been a major problem where we see the legislators mainly during the election period when they are campaigning; thereafter, they disappear to the city until the next elections when they are either rejected or re-elected; this situation leads me to the next question; and (c) Voter apathy. What actually would be the nature of education (enlightenment) that would eradicate or reduce voter ignorance and apathy?"

One of the Ugandan experts, Mr. Henry K. Bamutura, made the observation that the United Nations' role is very clear. But, until recently, it has been focused on human resources preservation or peacekeeping only. The United Nations has forgotten or failed to understand that there are other resources of a public entity, financial and physical, that give a country internal strength to fight any external threat. If there were proper accountability of financial and physical resources in countries, people would not be fighting for survival or power to loot public properties or finance. But because people know there is no recording of public financial resources in government and therefore they will not be followed, they fight for the opportunity to manage countries and loot. After looting and government collapse, they [civil service managers] run to other countries to enjoy their loot safely. It is after this that the United Nations comes in and protects only the human resources from danger. The main solution is to ensure that people elect Governments which will be subjected to accountability of financial resources. Governments must allow, and the people must demand, financial recording, calculating of balances, summarizing receipts and expenditures and reporting to the people.

A great deal of thought and discussion went into proposals to improve the recognition that strengthening public financial management is a key governance issue. It was recognized that training initiatives are often too short-term and, in some cases, focus on senior management to the exclusion of the very essential operational, hands-on training that is required at all levels of government in auditing and accounting.

B. South-South collaboration: regional consultative group and on-line forum

It was brought to the attention of the Expert Group that a donor consultative group had been meeting quarterly since 1989 to focus on the financial management system needs of countries in Latin America and the Caribbean. From its inception, it had focused on accountability and anti-corruption before those issues were considered "acceptable" to discuss. It has had remarkable success in coordinating the impact of donor assistance in order to achieve coherent and sustainable improvements in national financial management systems. In recent years, emphasis has extended to the subregional and municipal levels. With the backing of the donor consultative group, multilateral donors have been able to continue to work in many countries as they have undergone significant political change. This has ensured that the importance of strong financial management to the Government itself, to investors and to the public is well understood and is supported by the necessary political will.

The Ad Hoc Expert Group requested that the United Nations support Governments in Africa in initiating a similar donor consultative group to focus on the financial management requirements and the need for good accountability and transparency in Africa. Consideration should be given to including representatives of the developing countries themselves in that group.

The Ad Hoc Expert Group also encouraged the United Nations to take a prominent role in providing information to countries through its electronic clearing house and its publications programme. There was a call for development of a "model" of best practices in public financial management to be used for reform programmes and national training initiatives. It was also recommended that the United Nations collect and document effective training programmes that could be replicated in other countries. Promulgation of model anti-corruption legislation, national policy statements on ethical conduct for public officials and summaries of the key constitutional provisions and financial management laws and regulations for each country were recognized as an invaluable aid to both host countries and donors engaged in negotiations involving disbursements and accounting for external assistance.

In response to the post-Meeting survey, experts who had been involved in the first official Internet meeting to have been held in accordance with a General Assembly mandate strongly supported the idea that the United Nations move to create an ongoing on-line discussion forum in which professional accountants and auditors could participate on a quarterly or biannual basis to discuss common problems in public financial management and accountability. An on-line forum dedicated to substantive financial management issues in which regional professionals could participate would be a low-cost, effective mechanism for supporting South-South dialogue and cooperation.

C. United Nations study and development of a model public financial management control system

In the view of the experts, as noted above, too little importance is given to accountability and transparency. Thus, it was not surprising that a complementary and dominant theme expressed at the Meeting was that the basic accounting systems themselves are weak. There was little discussion about integrating and computerizing financial management systems despite Ghana's recent strong move in that direction (see in Annex IVA, paper IIB by Mr. Raphael K. Tufuor). The dominant theme was the need for attention to basics. The point was eloquently made that Governments do not really have a clear and comprehensive basic financial control system. In the next chapter, it will be seen that parastatals are a unique subset of this concern in that loans and guarantees from Governments to them are often inadequately documented.

One of the experts from Uganda, Mr. Henry K. Bamutura, submitted a detailed paper on public financial management systems (Annex IV, paper VB). In it, he discussed the characteristics of such systems, detailed the public financial resources that need to be managed and controlled, identified weaknesses in national public financial management systems, and highlighted the most serious problems and potential solutions.

It was observed that there can be no transparency without achieving accountability first. There can be no accountability without maintaining books of accounts in the centres of government responsibility. There can be no effective accounting process unless Governments and donors prioritize it and provide the needed resources. It should be known therefore that financial resources may continue to be planned for (budgeted), and laws may be passed by Governments, but this will not necessarily produce effective results (accountability and transparency) if the control process (accounting) is defective or malfunctioning.

It was argued that Governments should document the public financial control system, put in place a system to review its elements and components on an annual basis (especially accounting processes), realign them and make them complete to match the environmental changes.

During its on-line sessions, the Ad Hoc Group discussed the need to develop and share a model of an effective financial management control system. It was agreed that the United Nations was well suited to coordinate a regional study which could then be used as a model or yardstick by developing countries both to assess the strength of their own systems and to propose appropriate solutions for the weaknesses identified. While it was noted that every public entity or country has a financial management system to control its financial resources, entities and Governments differ in the individual elements and ingredients as well as processes followed to ensure that financial resources are used in the most efficient and effective way.

A number of experts expressed interest in participating in a regional study to identify and analyse individual elements and ingredients of a "complete" and "standard" public financial management system (PFMS). In studying and describing a model PFMS system, attention would be given to three aspects: budgeting, accounting, and establishing control structures for the full range of financial resources under government control, viz.:

- Tax and non-tax internal revenues collected by or due to the Government;
- Donations (cash and other forms of assets) received in government books;
- Grants (cash and other forms of assets) received in government books;

- Loans received by the Government (internal and external);
- All other moneys raised or received for, on behalf of, or in trust for the Government;
- Cash/bank balances in the consolidated fund and with accounting officers and receivers of revenues;
- Unsettled advances to individual
- persons/companies;
- Stores, equipment, motor vehicles, plants, buildings and surveyed land, etc.;
- Government investments in public and private enterprise (equity and debt); and
- Any resource item the Government can easily convert into money/convertible asset

II. REPORT OF THE SEMINAR: ISSUES AND PROPOSALS

A. Malfeasance in government

It is not useful to have well designed and written laws and regulations that are not followed. In many countries, the feeling is that too little is done once malfeasance is found. This sends the wrong message that it really does not matter even if one is caught for wrongdoing. Sufficient punishment should be meted out so as to discourage others from doing the same thing. It was noted that steps are needed to strengthen government resolve to prosecute and punish offenders, which ultimately requires that the public be made aware of its entitlement to sound financial accountability and demand it.

The Meeting recommended that national entities, either government or non-government organizations, be encouraged to formulate orientation programmes for legislators to enhance transparency and accountability. The United Nations can support this effort by collating information on successful programmes and making it widely available through its clearing-house information service or its publications programme. Wherever possible, it should also work with national entities to assist in obtaining technical assistance and/or funding for such programmes.

The Meeting recommended that the United Nations assist Member States with :

(a) Promulgation of comprehensive anti-corruption legislation; and

(b) Compilation of national policy statements on ethical conduct in order to develop a generic civil service code of conduct setting standards of leadership and professional conduct for public officials.

B. Compliance by Governments and donors with laws, rules and regulations

Concern was expressed regarding the level of compliance with financial management rules and regulations. Donor agencies need to respect the financial rules and regulations of national Governments. This means ensuring that funds, or meaningful accounting data, pass through government books of accounts on a timely basis and therefore can, and should, be audited by government auditors.

There is a clear need for transparency and accountability issues to be recognized at the outset of all host country/donor negotiations, and properly incorporated into any agreements subsequently ratified. Statements of government policy defining this requirement need to be unambiguous, widely promulgated and officially supported in any dialogue with donor agencies.

Neither government officials nor project managers should receive money that is not documented in the public statements of revenue and expenditure of the country. Ongoing discussions are needed between donors and recipient Governments to find a workable solution to the donors need to manage funds and to account to their own constituents, particularly where donors are concerned about the level and quality of financial management and accountability in a recipient country, while ensuring that their contributions are reflected in the country’s national accounts.

Donor officials need to obtain formal receipts and to account to both the donor agency and the national Government concerned for all money advanced to every project. United Nations agencies and other donors must ensure that national auditors are not denied access to project documents, including procurement documents, by any agency or official claiming diplomatic immunity.

The Meeting called upon the United Nations to play an active role in summarizing the essence of constitutional provisions and financial management laws, as well as national Governments' policies and procedures, to assist both host countries and donors in negotiations involving disbursement and accounting for external assistance. This review should also identify for amendment any provisions that may foster corruptive behaviour.

C. Shortage of skilled manpower and need for longer-term training initiatives

Participants commented on the shortage of skilled manpower in government agencies of developing countries and stressed the need for trained accountants and internal auditors as a major step towards the professionalization of the financial management systems of their countries. This will lead to Governments becoming not only more effective in managing scarce resources, but also more transparent.

Effectiveness will be reinforced by the presence of adequate numbers of professionally qualified accountants within Governments' financial management and control systems. The size of the task is captured by the needs assessment for Kenya. It is estimated that over 7,000 qualified accountants are needed by its Government; the Institute of Certified Accountants of Kenya currently registers 1,720 members in both private and public practice. Government training initiatives are unlikely to meet the need without special training programmes.

The Meeting suggested the following activities as a complement to direct professional training:

(a) Attachments to those national Treasuries that have effectively carried out the accounting process, of six-month duration and on two occasions;

(b) Two-week regional workshops on how to account for public financial resources, with one workshop at the beginning of every financial year; and

(c) Workshops on public accountability issues and not only on aid accountability, as most donors seem to prefer.

Transparency will be enhanced, in part, as a result of the professional ethics that are infused into training programmes for qualified accountants. Early guidance on codes of professional conduct will deter government officials so trained from engaging in purposeful malpractice.

Since government accountants and internal auditors rely on government salary scales, many trained staff leave for the private sector for better pay. Attracting already qualified professionals to the office is another issue. Partial solutions lie in training on the job, attachments, and workshops to enhance effectiveness so that the outputs of this cadre can be useful to stakeholders (ministers, financial managers, Members of Parliament, donors and lenders). People will tend to always leave for the market-place whenever their output is not in demand.

Training programmes, systems reform initiatives and programmes in support of Governments' efforts to enhance the professional nature of these services, all need to recognize the need for a longer-term outlook on activities launched in these fields.

The Meeting called on the United Nations and other international bodies to collect and document effective training and public financial management enhancement programmes and for these to be given to ministers and financial managers to examine. Good and adaptable programmes can be replicated in other settings. The need is for public officials to make their own comparative analysis using an available source of reference material.

Further, the Meeting called for a regional programme to be formulated in which a best practices “model” in public financial management is documented in detail, to be used as a reference source for both reform and national training initiatives.

The Meeting also called on Member States to recognize the need, in contracting public service regimes, for all accounting personnel to be professionally trained to the highest levels possible and to ensure that civil service salaries properly reflect the responsibilities discharged by public officials in the public financial management field. These steps will significantly help ensure retention of qualified officers, and so promote transparency and accountability.

D. Role of the United Nations in assisting the Governments of developing countries

The Meeting identified a number of areas in which the United Nations could play a positive role in supporting the accountability process in developing countries. These include the collation and provision of useful best practices as well as specific issues which should be the subject of regional meetings and collaboration. For instance, it was noted that information on Governments that have successfully consolidated national accounts covering all receipts (tax, non-tax, donations, grants, and loans) and expenditures (recurrent, development including counterpart and foreign contributions) would be very helpful to developing countries.

Secondly, a special meeting on procedures and accounting processes to detail what constitutes public financial resources was urgently needed as Governments cannot properly manage, control and direct resources they have not thoroughly documented. It was stated that the United Nations should also assist individual countries in developing a methodology to detail the full range of national assets and resources comprehensively including tax and non-tax revenues, donations, grants, loans, trust funds, cash/bank balances, advances, all stores, equipment, vehicles, plant, buildings, etc., as well as government investments in public and private enterprise (equity and debt).

The Meeting recommended to Member States and the United Nations to maintain links between experts in this field, particularly through electronic media such as electronic mail and the Internet, the purpose being to share ideas and secure assistance on an ongoing basis as the need arises.

The Meeting requested the United Nations to support its information needs through an information clearing house.

This would ensure that information and advice can be readily and economically accessed and that studies on detailed revenue budgeting as well as methodology for detailing all government financial resources can be undertaken. This can be distributed in hard copy as well as through the electronic medium.

The Meeting requested the United Nations to convene a regional meeting to discuss the importance of transparency and accountability in national financial management. It noted that since 1989 donors have collaborated to good effect in a working group on the importance of integrated financial management and accountability in Latin American, and requested the United Nations to explore the feasibility of convening a similarly focused meeting on Africa involving both donors and recipient countries.

Cash management

The main operational issues with cash management in government start with the making and maintenance of accurate records of cash receipts and cash payments. Reducing the extent to which government itself handles cash is seen as a solution in some countries; sub-contracting to commercial banks as payment centres, and the use of credit and debit cards is another. Bank cheques and credit cards are methods of reducing risks in cash management. These methods are in use in Kenya, but only by few in comparison to the overall population. All Kenyan taxpayers on formal payrolls remit part of the taxes through a direct check-off and payment system called PAYE (Pay As You Earn).

The responsibilities of the central bank and Treasury have to be clearly agreed upon and both parties need to be committed to this agreement within the context of all applicable laws. This is to ensure that monetary issues which usually befit the central bank can be combined with fiscal issues which are the responsibility of Treasury. The determination of public-sector borrowing requirements, and its associated interest cost, is crucial for government in any cash management system.

The problem of cash management begins with the preparation of the national budget. Normally, the degree of compliance with the national budget by line agency budget managers affects overall cash management. A cash management system for spending agencies that considers cash forecasts, revenue mobilization, matching of receipts and payments and investment of idle funds is important. Without it the traditional treasury payment function, can lead to government agencies spending on the basis of budget alone, leaving the Treasury to finance revenue shortfalls.

Other issues relevant to this discussion are the commitment of agencies collecting money on behalf of the central Government and the competence, or otherwise, of the commercial banks which have been selected to receive these funds and transfer them to the consolidated government fund. In cases where these banks are not paid any fees because the law prohibits commercial banks from charging for their services if they manage accounts for the central Government, delays in the transfer of these funds to the central bank can arise with correspondingly less control being established over cash management.

It was noted that in Uganda all tax collection by the Uganda Revenue Authority, a semi-autonomous body, is very successfully performed through commercial banks and cash losses to the Government have been greatly reduced. The contract with these banks includes payment of a commission and reimbursement of a premium for loss insurance.

However, the Meeting noted that these sub-agency agreements in no way mitigate the Government's responsibility to account for and manage all State assets, including cash. The meeting noted that basic record-keeping and effective management of cash receipting was at the centre of any effort to improve cash management.

The Meeting recommended that, where permitted by law, any choice of commercial banks should be by tender. This would introduce the many aspects of contract letting and management. Some of the issues to be considered during the selection procedures should include the bankruptcy risk of commercial banks, fund-transfer speed and frequency, and the timeliness of presentation of bank statements. On the question of fees for these services, it was noted that a no-cost service may result in fund-transfer delays, leaving the Government with no way to measure the opportunity cost of using the commercial banks.

Recommendations for improved transparency and accountability in cash management included the following:

(a) Proper regulations on cash management should be issued and enforced;

(b) Control over printing and use of official cash receipts should be maintained;

(c) Only senior and specified staff should be allowed to collect and handle cash, including the regular banking of funds;

(d) Proper internal control over cash with regular audits is necessary, including unannounced audits. Staff need to be trained on how to audit cash by ensuring that all government audit manuals contain a standard questionnaire on cash reconciliations. Also audit personnel should be regularly rotated; and

(e) Those who misuse cash should be dealt with seriously, including prosecution in a court of law.

Parastatals

The recording of loans and facilities to capitalize parastatals and the capacity of Governments to monitor their operating performance were the two main issues to arise in this area of public financial management.

Loans and other facilities were not seen to be reliably recorded in some cases, leading to an undervaluation of the parastatal at time of divestiture or overstatement of operating performance. Clearly, in those countries where parastatals need to continue to operate in shallow domestic manufacturing markets, there is a need to value all capital contributions by the State to ensure that operational results are realistic. Secondly, when preparing to divest these assets, as many countries are currently planning, it is essential that a reliable balance-sheet valuation be performed to ensure that sale values mirror their true cost. It was considered that the donor community would readily endorse major programmes within Treasuries to re-evaluate the capitalized value of parastatals in order to support reliable valuations and performance analysis.

With regard to measuring operational performance, the quality of parastatal accounting as well as Governments' capacity to analyse their financial statements were issues raised. It was suggested that improving the basic quality of parastatals' accounts would significantly assist Governments in monitoring operational progress. Similarly, better analysis of these accounts would yield better decisions regarding the future of these assets. In both cases, the need for properly trained staff was again highlighted as immediate and obvious.

The Meeting recommended that training programmes in financial management and accounting be launched to assist countries with parastatal management and divestiture programmes. Donors could be approached to assist with this, given the expected impact on overall transparency and accountability, as well as the materiality of the funds involved in many cases.

III. CONDUCTING ON-LINE OFFICIAL MEETINGS

A. Overview

A decision to hold the mandated Ad Hoc Expert Group Meeting on-line was made in October 1996. The principal impetus, at least initially, was financial inasmuch as the on-line medium promised, and delivered, significant cost-savings relative to the face-to-face meetings that have traditionally been held. For several months, the Public Finance and Business Development Branch reviewed the possibility of holding an interregional meeting with participants from a range of geographical regions. Given the practicalities associated with working across time zones, a decision was made to focus on only one region.

Africa was selected because it had previously been sidelined as a region where Internet technologies cannot be used now but will only be applicable "in the future" on a time horizon which is often assessed at ten years hence. The Department wanted to demonstrate that the "future is now" for Africa and Internet technologies.

A decision was taken to hold as simple a meeting as possible. Streaming audio, though technically feasible, was ruled out for the first on-line meeting. This proved to be a productive decision not only because the Department was trying to develop a basic (no-frills) working model, but also because, as experience later proved, it was possible to leverage each segment of time, meaning that a relatively large number of participants could "communicate" at one time without "interrupting" one another. It was therefore possible to use a limited amount of time more intensively and productively. For example, the moderator would ask a question to which all were invited to respond, and a suggested time frame was given for those wishing to make an intervention on the designated issue. Cross-talk and follow-up, both during the meeting and by experts seeking to return to a previous session's issue, were permitted and did not interfere with the overall flow of communication or the resolution of issues in preparing the draft report.

While at least one expert commented that he would have liked to have been able to "hear" the remarks of the other participants, any decision to incorporate audio, even if technically feasible, should be made carefully. It is by no means clear that the quality of the interventions and comments would have improved if the facility for speaking and listening had been added to the forum. The typed comments that were submitted were generally pithy and substantive. There was little verbosity inasmuch as participants were intent on conveying the essence of their points of view. Another significant benefit of the electronic meeting is that typed contributions by individual experts are automatically and fully documented. Meeting reports providing full coverage of each day's session could be spell-checked in word processing packages and printed within an hour of the meeting’s conclusion.

Video conferencing was also considered, but the idea was dropped as participants from the region would have had to fly to a regional centre where high-end videoconferencing hardware was available. This would have significantly increased the perception that on-line communication is an elite tool rather than one which can work for any civic or governmental group in virtually any country. With the advances in digital signal processing for wireless data radios, the way will increasingly be opened for local Internet access in remote regions and become a low-cost communication tool accessible to the poor and rural peoples of the world.

B. Internet service

The first requirement for an on-line meeting with government officials in Africa was to find a service provider and software applications to run the discussion forum and bulletin board. A wide range of alternatives was considered. An official request for assistance and support to the United Nations Electronic Services Division was turned down as too low in the then current priorities. The Department then approached a major private sector entity with Internet service nodes throughout the developing world including Africa. The approach to this firm ran aground for internal reasons. The Department finally settled on a direct approach to local Internet Service Providers (ISPs) in Africa. Some 65 ISPs were identified in Africa and the Department contacted them all regarding their interest in supporting the conference. Initially the question of who would provide Internet service seemed linked to the question of who would provide the discussion room and bulletin board software. Ultimately, the United Nations Electronic Services Division/Information Technology Services Division agreed to provide and support the needed software applications, while the Internet service was provided locally by the private sector or telecommunication parastatals in African countries.

Several months of communications ensued between the Department and suitable ISPs, and the Department ran a series of exercises, including logging response times, requiring ISPs to post information to a form on the departmental Web site and conducting live tests of the chat room. The responses from the selected African ISPs indicated that they supported a 64 KB data transfer speed and higher personal computer speeds (PCS) of (128 - 2 Meg) from their internal LANs. All supported both Netscape 2.x and Microsoft Explorer 3.x, and PCS were all 133 MHz/8Mb RAM or better. The language for the meeting was English. The time difference issue African countries were on average six to eight hours ahead of New York time was resolved by ensuring that the Secretariat participants would commence at 4:00 a.m. and log on from their homes.

The moderator used two Internet service providers, with the second one as a backup in case of inability to connect through the primary local service provider. Two of the Secretariat staff logged on via America Online which provided the Secretariat staff with the capacity for "instant message" while the Meeting was taking place. The instant message facility proved helpful in providing the Secretariat with a means to signal who would respond to the comments of a particular participant when more issues than one were being raised at the same time. It also provided a valuable method of conferencing between Secretariat staff on questions of timing and pace.

The question of structure is an important one to consider in this context. Unlike a "normal" face-to-face meeting, participants have few external cues on structure. Although an agenda was sent to all participants, experts occasionally got confused because they did not know where the group was in relation to the agenda. Once, an expert noted that he could "see the answers" but wanted to know "what the question" was. The moderator developed a process of regularly informing all participants where the group was and where it was heading. This took the form of a mini-agenda. The moderator would advise the group that a particular question, e.g. suggestions to improve government management and control of loans to parastatals, was for a designated period such as twenty minutes. In on-line meetings, moderators should not expect the meeting to flow seamlessly on its own but rather should be prepared to intervene frequently and support the flow of discussion.

The moderator maintained an open pre-written word-processed document which contained key paragraphs such as the day's discussion questions, instructions to participants, and final remarks indicating the next day’s topic. Using the "cut and paste" technique, many short interventions could be sent to participants by quickly typing in the comments as they took place. This proved a valuable meeting management tool and on-line time saver. Windows 95 was used which allowed three screens (the on-line meeting, the instant message, and the word processed document) to be open simultaneously.

C. Participants

Participants were drawn principally from the Treasuries and auditing departments in the selected African countries, supplemented by an academician from one country. Although the Department asked for recommendations from the Governments, the individuals served in their own capacity as experts rather than as representatives of Governments or universities.

The question of participation was less straightforward than in a face-to-face meeting. Participation in a face-to-face meeting has important financial benefits associated with travel and daily subsistence allowances. Participants in the first United Nations meeting to be held on-line were not rewarded financially but were given a framed certificate at the end.

There was some hesitation on the part of prospective participants to be involved in the on-line meeting. At least one linked his reluctance to the prospect that on-line meetings would reduce travel opportunities. The Secretariat pointed out that the savings, which in this instance accrued to the United Nations, would, in future, accrue to developing countries. Familiarity and facility with the Internet as a working tool will permit developing countries to access expert advice on-line at very low cost. The Department is moving to set up an on-line clearing house which ultimately should have an interactive component where departmental advisers and external experts can be made available to Governments and projects in an extremely time-efficient, low cost manner. The inclusion on an on-line diagnostic facility which goes beyond the discussion phase to a structured problem- solving mode will offer developing countries further efficiencies and savings.

Despite the initial hesitation of some, those who participated in the on-line sessions gave very enthusiastic feedback. A survey was conducted and the participants wholeheartedly embraced the idea of participating in regular on-line forums and indicated that they would fully recommend this type of activity to their colleagues. During the meeting itself, participants described the on-line communication as "exciting", "nourishing" and "fabulous". Professional friendships were developed on-line and participants followed up after the meeting by obtaining their own e-mail accounts and by maintaining contact both with the United Nations and the other experts.

Nevertheless, the question of payment remains and deserves further consideration. One view is that experts contribute their time and expertise for the good of others in developing countries and should be compensated in some appropriate way. As the medium is new, the policies surrounding it will also need to be updated. It may be appropriate to offer experts fees to prepare country papers. Those participating in the Ad Hoc Meeting were asked to submit papers of three to five pages in which they responded to the issues raised in the Secretariat's paper or commented on aspects of their national financial management systems which required attention. The papers received were substantial (see Annex IV).

D. Results

The savings resulting from the holding of an official expert group meeting on-line instead of in the traditional face-to-face format came to more than 85% of costs. The actual cost was less than US$8,000 for the six-day meeting. Additional savings might have been achieved by using existing United Nations sites and facilities such as those at United Nations Development Programme offices in the respective countries. The savings that were achieved are indicative of the costs a private-sector organizer might face and relate principally to travel and daily subsistence allowances as there was no air or rail travel, either to set the meeting up or for participants to attend. The costs were mainly those of communication charges, leasing of equipment and technical support for participants. Depending on policy considerations, additional savings may be possible on communications charges and technical support but an increase in overall cost may be incurred for payment of fees to experts for their contributed papers.

The savings are real to the extent that an on-line meeting replaces a mandated or planned meeting. The format has some distinct advantages over video conferences which rely on relatively expensive hardware. Videoconferences of one-hour meetings, for example, to the extent that the speaker would not have travelled to the selected site to give the speech, represent an added cost, not a true cost saving.

There were also considerable savings in time and personnel, such as the avoidance of travel time and stress and on secretarial assistance to document the contributions of the participants. All interventions were documented electronically, automatically and precisely as part of the process of participating in the meeting.

Participants noted in their feedback surveys that a key benefit of the on-line format was that they were able to attend the meeting, make their substantive contribution, and still take care of their other work and family obligations.

The key lesson of the experience is that the new Internet technologies can now be used in almost every country in the world to discuss substantive issues and negotiate documents efficiently and effectively. The technology is easy to use and requires no formal training.

Nevertheless, the substantive department should ensure that technical support is available during the meeting; for example, to post information to the conference site as it is received, to decode e-mail attachments, and provide support to departmental staff.

Before these technologies can be used on a broad scale, it will be useful to strengthen a number of areas. First, there is a large and growing demand for applications of interactive communications. In the first few months after the on-line meeting was held, some ten requests for information and assistance were received in the Public Finance and Business Development Branch from government entities, multilateral institutions and non-governmental organizations. Technical support resources may ultimately need to be increased, particularly if there is a policy decision to replace some official meetings, preparatory meetings, evaluation and tripartite review meetings with on-line meetings where feasible. Mirror sites for official United Nations meetings should be established. Better software applications such as Windows 95 (or better) and appropriate policies on the use of United Nations or UNDP Web sites and facilities, and flexitime arrangements for those involved in servicing meetings will gradually become necessary. The policy which discourages the use of Web links on United Nations sites may need to be reviewed in order to direct participants from developing countries to the truly useful and valuable information which can be accessed via the Internet. Finally, training of United Nations staff, e.g. in how to become effective in on-line meetings, will contribute to effective use of the tools that will enable the Organization to offer cutting-edge services and information on-line and to achieve the potential savings and efficiencies.

Annex I

LIST OF PARTICIPANTS

A. Participants from Africa

Mr. Ato Mammo Gitto Foli
Head, Department of Inspection
Ministry of Finance
Addis Ababa, Ethiopia
Fax: 251 1 55 13 55

Mr. Assefa Desta
Deputy Auditor-General
Addis Ababa, Ethiopia
Fax: 251 1 55 25 94

Mr. Raphael K. Tufuor
Deputy Controller and Accountant-General
Accra, Ghana
Fax: 233 (21) 66-81 58

Mr. Daniel Mathokoza Dlamini
Auditor-General
Treasury Department
Mbabane, Swaziland
Fax: 268
43187

Mr. David Duma Dlamini
Accountant-General
Treasury Department
Mbabane, Swaziland
Fax: 268
44802

Mr. David N. Nzomo
University of Nairobi
Nairobi, Kenya
Fax: 254 2 531042

Mr. Henry K. Bamutura
Principal Accountant, Treasury
Kampala, Uganda
Fax: 256 41 23 35 24

Mr. Singh Gurubachan
Director of Audit (Central Government Ministries)
Office of the Auditor General
Kampala, Uganda
Fax: 256 41 34 56 74

Mr. Osei Tutu Prempeh
Auditor-General
Accra, Ghana
Fax: 233 21 66 24 93

B. United Nations participants

Ms. Cheryl Larsen (Moderator)
Division for Public Economics and Public Administration, Department of Economic and Social Affairs
Fax: 212-963-2916
E-mail:
HYPERLINK mailto:Larsenc@un.org Larsenc@un.org

Mr. Peter Heijkoop (Rapporteur)Division for Public Economics and Public Administration, Department of Economic and Social Affairs
Fax: 212-963-2916

Mr. Robert Rigolosi (Secretariat)
Division for Public Economics and Public Administration, Department of Economic and Social Affairs
Fax: 212-963-2916

.

Annex II

MEETING SCHEDULE*

23 June 1997

On-line group session: 4:00 - 6:00 a.m. A third hour is not a group on-line session and may be taken before or after the group session depending on individual schedules.

4:00 a.m.: Welcome participants and familiarize them with the bulletin-board site (BBS), discussion room and conference Web page. Request participants to post their country paper and comments on the issues paper.

5:00 a.m.: Discussion about weaknesses in the accounting system (recording, reporting, timeliness). Possible solutions.

Third hour: Request participants to go to the conference Web page/BBS and read other experts' papers either on-line or by downloading and printing.

24 June 1997

On-line group session: 4:00 - 6:00 a.m.

4:00 a.m.: Aid management and legal framework. Do donors contravene national law by making direct transfers into commercial banking accounts or simply undermine desirable financial management practices? Possible solutions.

5:00 a.m.: Subject to be determined based on experts' discussion, interest or issues raised in papers.

Third hour: Experts invited to go to the bulletin board where issues will be shown under topic headings such as budget preparation, Ghana public financial management reform programme, revenue collection, computerization experience, training, cash management, advances and loans to private sector/state-owned enterprises. Some questions for specific participants will have already been posted and more can be posted. Experts may comment on any topic or issue which interests them or post questions/observations for individual participants.

25 June 1997

On-line group session: 4:00 - 6:00 a.m.

4:00 a.m. System weaknesses and practices between Government and parastatals which lend themselves to corruption. Possible soluttions.

5:00 a.m.: Issues considered by critical experts based on discussion, experience, and/or experts papers.

Third hour: Experts may post issues and recommendations for inclusion in draft report on the bulletin-board.

26 June 1997

Opportunity for participants to explore the Internet using unstructured Web "surfing" on topics selected by the experts or via links provided by the Secretariat in the areas of on-line training, international anti-corruption efforts (outstanding Web sites), international government financial management resources including conferences, experiences, software, best practices, downloadable files, audit exchange library which contains audit programmes, audit reports, manuals, guides, programme reviews, etc.

27 June 1997

On-line group session: 4:00 - 6:00 a.m. Cash management discussion. Download and print draft report.

* The times shown are New York's. For Ghana add four hours; for Swaziland add six hours; for Ethiopia, Kenya, Tanzania and Uganda add seven hours

30 June 1997

On-line group session: 4:00 - 6:00 a.m.

Final on-line meeting to discuss draft report.

Third hour: Fill in survey concerning the Ad Hoc Expert Group Meeting and on-line experience. Post final comments and answers to fellow experts concerning bulletin-board questions.

Annex III

ISSUES PAPER ON WEAKENED SYSTEMS OF PUBLIC FINANCIAL MANAGEMENT: SOLUTIONS FOR ENHANCING TRANSPARENCY AND ACCOUNTABILITY

One view of weakened systems of public financial management is that they can be exploited, becoming a vehicle for corrupt activity. The purpose of this meeting is to identify the elements of systems that can be manipulated and to propose remedies to strengthen them. The Group’s experience will

Introduction

The level of transparency and accountability a society requires of its public financial management system is usually defined by the constitution and/or the legislation governing management of public monies.

Typically, the audit and public finance acts and their associated regulations will set out the frequency, timing, level of detail and responsibility for statutory reporting. More detailed statements of management reporting responsibilities and systems monitoring standards may also be documented in circulars and guidelines issued by heads of responsible departments. Together, this body of documentation establishes an analysis and reporting framework whose purpose is to assist government to determine whether the level of transparency and accountability legally required is being realized in practice.

Formal third party review, in effect a "second opinion" on the levels of transparency and accountability being achieved, is provided by ombudsmen, auditors-general and parliamentary public accounts committees with the authority to further evaluate and comment on the efficacy and outcomes of the systems of public financial management. Informally, non-government entities or the media can also analyse and comment on the workings of these systems, and bring into wider fora any issues or individual transactions of public interest.

However, the reporting framework and official and unofficial review bodies rely on the GOOD functioning of the financial management systems for basic information. Questions such as whether the legislative basis is adequate and whether the financial management systems provide the required information in an accurate and timely manner should be considered. Where financial management systems do not function properly, there are severe implications for Governments and any third-party observers.

Most notable, and the topic of this Ad Hoc Expert Group Meeting, is the implication that malfunctioning financial management systems not only frustrate Governments' efforts to manage the resources at their disposal effectively, but also offer opportunists a conducive environment, or "mask", behind which corruptive practice can evolve undetected. This secondary effect may have profoundly negative outcomes for government. It is necessary then to consider how financial managers can assess the level of exposure within their own systems and what decisive remedial action could be taken at the systems level to restore confidence in public financial management and reassure civil society that appropriate levels of transparency and accountability are being achieved.

The de facto loss of transparency and accountability as systems weaken

Any system of public financial management will tend to yield less than the legislated levels of transparency and accountability when its responsiveness weakens. Non-compliance with, or deferral of, reporting under the standards set for the system have the practical effect of delaying or limiting disclosure. Reservations concerning the timeliness or the basic completeness, accuracy and validity of the information presented will lead to the perception that overall levels of transparency and accountability are diminished.

Where deferral or non-reporting involves such key references as audit assessments of internal control measures, management statements of the appropriateness and proper functioning of systems and reports required by statute, the process which seeks to monitor whether the transparency and accountability requirements are being satisfied will at best yield inconclusive results. In such circumstances, Governments would need to remove the uncertainty regarding systems functionality in order to satisfy themselves and civil society that mandated levels of transparency and accountability are being met. The necessary impetus can only come from clear policy and an institutional commitment to this objective, which is a major task in itself. The "value system" established by top government officials including a widely communicated "code of ethics" and the certain knowledge that violations will be promptly followed up and condemned is a key determinant of whether inappropriate activities will be tolerated.

It should be noted that where administrative and judicial systems' responses to illicit or illegal behaviour are consistently weak, this obvious incapacity may represent a significant contributing factor in the long term cycle during which the requirements of transparency and accountability weaken. Ultimately, corrupt practices may thrive undetected by the systems of financial management, and further, go unpunished if detected.

Meeting outcomes

This meeting seeks to explore, and propose practical remedies to, the process whereby weakened systems of public financial management signal their potential to serve as a vehicle for corrupt activity. We acknowledge that the ethical and motivational dimensions that may exist as the backdrop to a decline in standards of public financial management are vitally important issues in the study of fraud and corruption in government. Nevertheless, we have observed that many meetings, such as RESPONDACON teleconferences and previous United Nations meetings[2] have examined this aspect of the problem. Moreover, considerable work is being

[2] See *Corruption in Government* (TCD/SEM/90/2, INT-89-R56.

done[3] to establish international countermeasures to individual actions such as bribery. While not diminishing the importance of exploring the perpetrators "motivations", we have observed that not enough attention has been paid to the way in which systems can be exploited by those so motivated. The gradual, pervasive weakening of financial management systems represents a widespread loss of capacity to safeguard financial assets, and it is this shortcoming which internal and external observers have come to regard as opening the way for corruptive behaviour.

Do some systems have greater potential to be abused by opportunists than others? If so, what are the systemic characteristics that lead to this conclusion? Once it is perceived that a weakened system is a vehicle for corrupt practice, what steps will reverse this perception? A number of case studies which highlight a particular aspect of the financial system in question are presented in the body of this paper. It is hoped that the papers prepared by each expert and the on-line discussion will amplify the substantive issues and propose potential remedies.

System weakness in the following areas will be discussed briefly:

(a) Foreign exchange allocations;

(b) Aid management;

(c) Accounts payable;

(d) Payroll;

(e) Procurement; and

(f) Loans to parastatals.

The detrimental impact that weak performance in these processes can have on a Government's relationships with its partners and with the civil society is considerable. All Member States will benefit from the guidance that this Ad Hoc Expert Group Meeting can offer.

Experts are therefore invited to prepare brief papers to describe or discuss system problems and/or solutions. Participants are not restricted to the issues which have been identified by the Secretariat. It is anticipated that a three- to five-page paper will be prepared outlining each expert’s opinions or experiences with respect to weaknesses in financial management systems which could enable corruptive behaviour to take place. Clearly, the revenue function of government, involving for example collection of taxes and excise duties, is a public financial management system which could also be reviewed. In this initial paper we have chosen not to describe weaknesses in this system because it seems to have already received considerable attention.[4] However, if experts wish to discuss this aspect in their papers, time will be allocated to it in the on-line discussion sessions as well.

A. Advance foreign-exchange allocations lead to hidden payments

The facts

The reserve bank of a least developed country sought to ensure continuity of

[3] Recent activity in this field includes action taken in April 1996 whereby Organization for Economic Cooperation and Development (OECD) agreed to end the tax deductibility of bribes. This is a political commitment which will be monitored collectively by Governments through the OECD Committee on Fiscal Affairs, the Inter-American Convention Against Corruption adopted (29 March 1996) by Member States of the Organization of American States, and the United Nations Declaration on Corruption and Bribery in Transnational Commercial Activities.

[4] Inter-American Centre of Tax Administration: Venice technical conference, 1-5 November 1993, and Lima Conference, 27-31 March 1995.

inputs to its manufacturing parastatals by assigning foreign exchange budgets to each one at the beginning of the fiscal year.

National auditing systems did not analyse these manufacturers' operating costs against regional or global norms and the full utilization of foreign exchange allocations was not correlated with overly priced raw material imports. A portion of the inflated value of these inputs was transferred by offshore vendors as illicit payments into hard currency bank accounts controlled by parastatal managers.

Budgeting of foreign exchange allocations was performed by the Treasury on an annual incremental basis, not on a zero-based one linked to cost estimates of goods sold. The reserve bank did not query up-to-budget consumption of foreign exchange in the form of current account payments. The national audit office was not able to undertake performance audits, or to engage external audit practitioners to do so.

Conclusion

The ready availability of a known volume of hard currency, complicit vendors and weak systems of accountability "drove" corruptive behaviour on the part of parastatal managers. In effect, what was intended to be an enabling environment for state-owned manufacturers became the vehicle for illicit foreign-exchange transfers that were not readily detectable within the prevailing regulatory framework.

The cost

Weak budgeting and oversight systems were unable to support macroeconomic management measures. Domestic consumers pay higher prices for domestically manufactured goods, and private sector importers are displaced from the foreign-exchange management programme.

B. Some aid is not public monies and misuse cannot be penalized

The facts

Many donors in a least developed country find that programme delivery is constrained by the national Government’s inadequate implementation mechanisms. Donors redirect their efforts and mobilize many independent implementation units and non-governmental organizations (NGOs) as implementors. Donor financing for them is provided through direct transfers of funds into the commercial banking accounts the implementors operate. These transfers are not incorporated into the national budget appropriation process. Further, major donors convince the Government to make its counterpart payments in support of "core" projects in the form of monthly direct transfers to these commercial banking accounts.

The definition of "public monies" in the public finance legislation of the host country is limited to those funds appropriated by the budget. Civil service legislation that requires civil servants to be prosecuted for misappropriation or abuse of public monies adopts this same definition. Civil servants are fully aware of this limitation to public prosecution, particularly as it applies to the donor funds held in the commercial banking accounts of project implementation units and NGOs.

Civil servants who are assigned as direct counterparts to project implementation units and NGOs, and who misappropriate funds, know that public prosecution is unlikely. Strong circumstantial evidence suggests that they, and others in the executing agencies, do divert funds. Fungibility makes the analysis of whose funds are misused, the donor's or the Government's, impossible.

The Auditor-General's office is legally bound to audit government counterpart contributions, but it is understaffed and competes for qualified national professionals with a growing number of donor-financed project implementation units. Salary differentials can be as high as 20 to 1 in favour of those units. Further, the Auditor-General's staff rely on financial statements and access to records that can only be provided by non-government staff outside their jurisdiction, or counterpart civil servants who may have little motivation to cooperate.

Conclusion

The donors' decisions to transfer funds directly into what are essentially private banking accounts place acute limitations on the Auditor-General's ability to audit government counterpart funds and deny a legal basis to the public prosecution of civil servants who misappropriate donor funds.

Delivery of donor programmes may appear higher in empirical terms, but the developmental outcomes achieved may be significantly impaired by the diversion of funds. Access to essential accounting records which would help to monitor outcomes achieved vis-à-vis inputs can be impeded by jurisdictional limitations, or frustrated by outright non-compliance.

The cost

Donor development programmes clearly exceed the absorptive capacity of weak governmental institutions. Resources intended to support national development objectives are diverted by public servants and the civil society does not benefit to the extent intended. Future development programmes could be jeopardized where misappropriation becomes evident to taxpayers in donor countries, potentially denying the civil society access to these low-cost development resources in the future.

C. Accounts payable systems are strong and malfeasance is detected, but political will fails

The facts

Officials in a developing country’s government procurement agency identify duplicate, and sometimes triplicate, payment of one vendor's invoices for deliveries to regional centres. An internal investigation to document the overpayment fully leads to the finding that the phenomenon is confined to invoices presented by one major supplier, and that a material amount of the annual procurement budget is involved in the total value of overpayment. The supplier is the business arm of one of the major political parties. A general election is scheduled in that year.

A file is prepared by the senior procurement officers for further administrative action. All documentation detailing the procurement procedures involved and the corroborating reports of the public financial management system is presented. This file is referred to the competent authority for administrative reviews. No further action is taken.

Conclusion

Public officials were vigilant, monitoring systems were strong and a duplicate payments scheme was detected; however, the presence of a major political party's business arm in the matter acted as disincentive to any further review or action in a general election year.

Clearly, public servants did not feel that the existing institutional mechanisms could defend their role in any follow-up actions and prudence dictated that they should not proceed. For lack of political will, a well-documented example of corrupt activity will never be considered at the national level.

The cost

Resources intended to support national development objectives are diverted for political purposes. The opportuniity cost of not proceeding is the politicization of the public service which compromises its effectiveness.

D. Management by exception in outdated payroll system does not detect fraud

The facts

Payroll officials in a developing country’s Government ran one-time tests on the total payroll of 60,000 public servants to disclose duplicate name entries. A small group of civil servants appeared under more than one agency payroll. An in-house analysis determined that the "exceptions only" method of payroll management can lead to multiple payroll entries for a single individual.

The key actions required to initiate a duplicate payroll entry are: (1) to suppress the payroll variation advice that deletes a transferring employee from the source agency payroll; and (2) to ensure processing of the payroll variation notification issued by the agency with which the staff member started work. Under these circumstances the centrally managed payroll, controlled by the Ministry of Finance, will continue to prepare a salary cheque under the source agency payroll while initiating a cheque draw from the receiving agency's payroll. There are no follow-up controls in the source agency to verify deletion of the employee. For security reasons, the payroll tapes are not made available to these offices.

An internal review found that groups of family members represented the majority of payroll duplication cases. It was further determined that these family groups were associated with payroll processing staff in the Ministry of Finance and with personnel officers in some agencies.

The automated payroll system is antiquated and new systems would help to prevent similar duplications from arising in the future, but the Government is reluctant to engage in a major review of computer systems and even more so to take any steps that could disrupt the civil service payroll. The payroll system remains unchanged and the potential for this fraud remains present. Few officials are capable of running the tests to check for duplications. Those officials who are skilled and knowledgeable about such matters frequently leave government service to become private sector employees.

Conclusion

Computerized payroll systems are outdated and expose the Government to fraudulent payroll actions by knowledgeable civil servants. Ex post facto payroll review procedures in the line agencies are weak.

The possible disruption caused by revising computerized payroll systems represents an even greater exposure for the Government, while trained staff who could assist in monitoring the payroll as a stop-gap measure are continuously separating from the public service. Confidentiality requirements prevent farming out of this function. No further remedial action is taken.

Payroll fraud can resume, with few effective controls in place to prevent it. Government's technical capacity to periodically investigate the payroll system for duplications is by no means certain. Payroll control cannot be verified.

The cost

Payroll makes up 60 per cent of the public expenditure; rigorously containing this budget item is an essential component of fiscal deficit management. Short-term policy decisions to retain outdated systems can reduce the effectiveness of overall payroll management and facilitate low-level corrupt activity.

E. Procurement

Procurement is a government business system which is concerned with preparing specifications, requesting, receiving and evaluating bids, and awarding a contract. The fulfilment of the contract, through provision of goods or services and subsequent payment by the government accounts payable unit, completes the system (Figure 1). The stages in the procurement system which take place prior to the awarding of the contract include preparation of specifications, the bidding process, bid preparation by outside suppliers, and evaluation of bids. There are potential problem areas in each of the stages.

Figure 1

PROCUREMENT

Prepare specifica

Potential problem areas

Special qualities, unique features designated as essential
Timing
Breaking the contract into smaller pieces

Bidding process

Preparation of short list
Pre-qualification of bidders
Release of list
Opening of bids

Preparation of bids

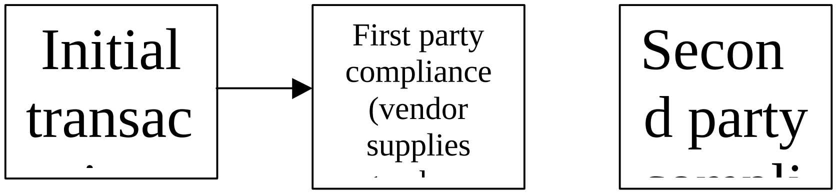
Price rigging
Market agreements

Evaluation of bids

Evaluation of non-financial factors

General accounts payable system

Recon ciliatio


Initial transac
First party compliance (vendor supplies
Secon d party

Preparation of specifications

In most countries the tendering process is the subject of clear procedures. For example, bids should remain sealed until all envelopes are opened (and amounts recorded) at the appointed time in full view of a number of persons. In contrast to the well-defined tendering procedures, the specification process may be highly vulnerable to corruptive influence because it takes place in a less open environment. When a department determines that a major contract for supply of goods and services is needed, it prepares specifications. In general, there are guidelines concerning the amount of the proposed contract which necessitates going to an outside body.

It is possible to circumvent the guidelines for submission to tender boards, in some cases, by artificially breaking the contract into smaller parts. The purpose of the tender board is to provide an independent check on departmental management and to ensure that major contracts are subject to proper evaluation and cost-benefit analysis. To the extent that a department can break down a proposed purchase into smaller pieces which fall below the minimum line, it can escape outside scrutiny of its purchase decisions.

Opportunities for influence and reward may also take place in the interaction between potential suppliers and the official who is responsible for preparing specifications for goods or services. Thus, the specifications may be written so as to favour a particular supplier by making an unimportant or even unnecessary feature appear to be essential; timing may also be used as an inconspicuous means of favouring a particular supplier.

Bidding process

The establishment of an intermediary between the contracting department and the proposed supplier is intended to preserve the integrity of the bidding process. In some cases, however, the third party (in this case the tender board) may simply shift the locus of the corrupt activity away from the department to its own members. At the United Nations, for example, such concerns resulted in a body being established to effectively oversee the tender board.

There are various steps during the bidding process wherein the system is vulnerable to corrupt activity. The pressure points include preparation of a short list of bidders, pre-qualification of bidders, release of the list of invited bidders to one of the prospective bidders, and opening the bids privately or prior to the official closing date and releasing information to one of the prospective suppliers.

Preparation of bids

In the procurement process, the locus of activity and decision-making occurs principally within the government arena. In respect to the preparation of bids, however, illegal activity may occur with or without the involvement of government officials. Thus, price-rigging and market sharing agreements could in theory take place without their knowledge. In practice, however, it seems that government officials may be significantly involved even in this area.

A German corruption case study presented by Transparency International highlighted other actions within the corrupt system i.e. those of the suppliers themselves. A private company received the bidders' list and would then either make its own “lowest” bid, or, more commonly, organize a “bidder's conference” and coordinate subsequent bids with the other companies, who would be forced to participate in the bid-rigging or risk losing out on all future contracts. As a compensation for playing along, other companies were given a free hand in other municipalities.[5]

Evaluation of bids

The probability of integrity is enhanced where discretionary decision-making authority is exercised under the aegis of an oversight body. In principle, that is the intended role of a tender board – to act as an independent decision-making arbiter between supplier and purchaser. Nevertheless, the combination of discretion and lack of oversight opens the tender board itself to opportunities for corruption during the evaluation stage.

When the proposed contract is for a quantity of goods which have a known, standard price (e.g. price per ton of rice or butter) or common items with specific dimensions or comparable qualities (e.g. 400 60 x 120 cm desks or 100 PCs with 32 Mb RAM and 1 Gigabyte CPU), there is less scope for, and probability of, corruption. When the goods are non-standard, however, the importance of "unique" features may be overstated or stated as part of a technical requirement which persons outside the substantive field may have difficulty verifying. Even generalist engineering or computer specialists on a tender board may be unable fully to evaluate highly specialized requests e.g. equipment for medical, military, water supply and treatment purposes or specialized agricultural machinery.

The evaluation of bids for services is generally more difficult than for goods because there are greater elements of subjectivity in the assessment. In the evaluation of bids, there are essentially two aspects which are at odds: evaluation on technical merits where any price goes or evaluation on financial merits where technical factors do not have a determinant effect on the outcome. A third mode of evaluation takes both the financial and technical aspects into account in attempting to reach a balanced decision on "overall value". This approach aims to maximize the optimal "technical-financial" result on merit. In evaluating bids for services, it is necessary to evaluate input by input, including charges for professional fees, contingencies, and perhaps other influencing factors such as delivery time and local support. To reduce discretionary aspects to a minimum, evaluation criteria must be clear both to bidders and the tender board from the outset.

Experts are invited to consider and comment on their own experiences with the Government's procurement system: for example, weaknesses which had permitted large contracts effectively to be broken into smaller segments to avoid scrutiny by the tender board; slanting contract specifications to favour particular suppliers; certain payments being made which were not recorded and therefore could not be audited; or other issues.

To what extent could Governments attempt to "open" the tender process to public and parliamentary scrutiny after a

[5] *Transparency International,* in December 1995, presented a case study prepared by Dr. Rügemer, on corruption in waste water treatment in Germany which eventually led to judicial inquiries being initiated against 645 persons in 85 municipalities, senteces for terms totalling 116 years in prison and DM 7 million in fines.

contract has been awarded? In many countries, all duty waivers granted by the Customs Department must be reported in the Government's gazette as soon as practicable. Would it be helpful if tender data were gazetted? The information could list the bidders, the amounts of bids, and the basis for the decision in each contract award. Would it be worth considering also whether government auditors or a private audit firm might be engaged to evaluate intensively a random sample of procurement decisions from the specification stage through bid assessment, to matching of final supply of goods and services with original specifications including determination of standard cost for the goods or services?

F. Loans to parastatals

The facts

Parastatals in developing countries are not only economically significant, the wide and diversified range of their activities covers all facets of economic life. While this sector has great potential for contributing substantially to economic growth and development, there is widespread recognition that parastatals should be required to strengthen their financial performance and improve the productivity of the capital invested in them.

In at least one developing country, the Government regularly loaned large sums of money to parastatals. However, in some cases there were no written loan agreements and in other instances the relevant document could not be found. Most often, the amount of loans which had been granted over a period of years was not known. There was no regular return of interest to the Government on the amounts borrowed or any indication that the principal would ever be repaid. Widespread irregularities have occurred involving millions of dollars. A parastatal, when asked, indicated that certain "loans" were really grants; another claimed that the loans had been "written off on the Cabinet's approval accorded in connection with restructuring of its balance sheet" although the approving memorandum did not actually specify any write-off of loans; and another company in liquidation simply deleted government loans without explanation or substantiation

A donor-funded project found that a mandated review of budgets of nine state corporations had "not been possible due to lack of response from these state corporations". In a separate review the Government identified over 500 direct loans state corporations owed it but information in the appropriation accounts was incomplete or did not include all loans due. After a year of concerted requests and follow-up, nearly 40 per cent of state corporations had still failed to submit information on the loans owed to Government.

Conclusion

The relative independence of parastatals and the fact that they may be less subject to audit scrutiny raise serious questions in countries where manual systems are clearly overwhelmed by the volume of data, understaffing and the failure of parastatals to provide timely information for monitoring purposes. It is essential that all relevant information be recorded in systems designed to ensure transparency and accountability. Where full and precise details of loan agreements and loan guarantees between the Government and parastatals are not properly recorded there is no possibility of audit review and reporting to either the Government or third-party review bodies.

The Cost

Scarce government resources are diverted from public service, health, education, and welfare programmes and lost sight of. Audit regulations may not apply with the same force to semi-governmental authorities. Limited government monitoring capacity and outdated, manual systems may give key parastatal personnel ready access to significant funds for which they are not held accountable and in respect of which they may with impunity ignore repeated requests for information.

G. Summary

One of our objectives is to consider measures that could be taken to reduce systemic weaknesses. Experts are invited to prepare a three-to-five page paper which will be posted on the bulletin board on the first day of the Meeting. Participants are not restricted to the issues which have been identified by the Secretariat. We would appreciate introductory information on which of your systems are manual or computerized and whether the double-entry bookkeeping system is used. We are also interested to learn about your experiences with weaknesses in particular financial management systems, which problems you perceive as the most serious, and potential solutions.

Annex IV

COUNTRY PAPERS ON WEAKENED SYSTEMS OF PUBLIC FINANCIAL MANAGEMENT: SOLUTIONS FOR ENHANCING TRANSPARENCY AND ACCOUNTABILITY[*]

1. ETHIOPIA

A. Paper by Mr. Assefa Desta, Deputy Auditor-General

Introduction

It is the accepted practice that accountability is ensured and transparency enhanced when the scarce resources of a nation are allocated through the approval of the annual budget by a democratically elected parliament. This approved budget is put into effect by the executive branch of the Government within the budget limit and in accordance with approved policies and procedures as verified and reported to Parliament by the Auditor-General through the annual audit report which also becomes open to the public.

However, the Auditor-General could review the annual accounts of the Government only when a proper financial management and accounting system has been designed and implemented not only by the Ministry of Finance (MOF) but also by the various government units. In short, the accounts should be closed in a timely way and be auditable and the Auditor-General should be able to include in his report his comments on areas of weakened financial and accounting systems which encourage corrupt practices.

In Ethiopia, public financial management is based on the French model system. The system is rather cumbersome and bureaucratic as it uses too many models. However, the internal control system is strong when adequately skilled manpower is available and the system is strictly put into practice. It is a single-entry accounting system using a cash book and is convenient to report government annual revenues and expenditure, but it has its shortcomings in reporting complete government accounts including important government commitments, liabilities and assets. On the other hand, parastatals follow double-entry accounting based on international accounting standards.

Until recently, the Ministry of Finance (MOF) had been guiding public financial management and accounting under the 1981 financial regulation. Today a comprehensive financial law has been promulgated for the first time and regulations and directives are under preparation to support the law.

The new constitution provides for the appointment of a federal Auditor-General reporting to Parliament independently of the executive. The autonomous regional states also have regional auditors-general reporting to the regional state councils. The federal Auditor-General has the jurisdiction to conduct both financial and performance audits of government offices and organization whereas the regional audit bureaus audit the regional government offices and organizations. To enhance accountability and transparency further, Parliament is in the process of establishing an office of Ombudsman.

The following is a brief comment on the financial management weaknesses addressed in the principal paper and

[*] The views expressed in these country papers are those of the authors as individual experts and not of the Governments. The papers were edited by the Secretariat.

other experiences reflecting the Ethiopian situation.

Major financial management weaknesses

The environment was conducive to such a situation when public enterprises were under centralized control and their primary motive was not profit but meeting annual production targets at whatever cost. Today, however, autonomy has been given to public enterprises and profit is the primary objective; thus, an attempt is made to control the raw material imports which are important elements in the cost build-up.

Regarding the exclusion of aid in the definition of "public money" and the resultant lack of measures to penalize misuse, the new financial law has specifically included aid in public money and therefore penalties do exist under existing laws. However, the problem is the lack of proper procedures to ensure the inclusion of aid received by public bodies in the annual budget. Some public bodies may not report the aid received to the Ministry of Finance or to the Auditor-General for annual audit. Currently, attempts are being made to institute a system of control of all aid received by public bodies.

The efforts of donors could be redirected through mobilization of independent NGOs in situations where the national Government’s implementation mechanisms are inadequate. In such cases, in the Ethiopian situation NGOs operate under agreement with the relevant government agencies and these agencies attempt to control the NGOs but, like any other agency in developing countries, they have a shortage of skilled manpower.

In addition, donors should include a provision in the aid agreement for the proper maintenance of books of accounts and periodic audits. Some donors conduct their own audit to ensure that the funds they have advanced have been properly utilized for the intended purposes.

Although the existence of a strong system which detects major irregularities and frauds but fails because of pressure by a ruling political party and/or higher government officials is not experienced in our case, it is not uncommon in countries which lack democratic traditions. If democratic procedures are instituted and put into practice, influences which reduce accountability and transparency are expected to be minimized. For example, the establishment of a public accounts committee chaired by the opposition party to monitor investigations and the appropriateness of measures and to take action based on its direct investigations would enhance accountability and transparency.

Corruptive activities in the various phases of procurement do exist in our situation also. To minimize them, major procurements are executed by a separate central agency established for the purpose of procurement only. However, there is no guarantee that it operates in accordance with the existing purchase regulations and guidelines. It is worth mentioning that purchase regulations and procedures are not complied with under the pretext that certain purchases are extremely urgent, there are not enough bidders, etc.

Regarding loans to parastatals, although this was true in the previous centralized system, special loans are not given to parastatals at the moment. As they are autonomous and operate with the profit motive, they secure loans from banks just as private enterprises do.

The income-tax system here segregates particularly commercial taxpayers between those who are required to keep books of accounts and those who are not, depending upon the type of business and the annual amount of income. Even those who need books of accounts maintain two sets: one to show to the income-tax authorities, which is distorted, and the other, correctly prepared, reflecting their true profit situation.

This system has facilitated corrupt practices in which taxable income sometimes is determined through negotiation between the taxpayer and the income tax assessor, which may compromise the amount of government receipts from tax. It is therefore necessary to institute a proper income-tax assessment process based on accurate books of accounts which must be maintained by the taxpayer.

Another area of weakness in the financial management system is in revenue receipt control where existing systems to control unused receipt vouchers are inadequate. This results in a significant misappropriation of public money by custodians who have collected the revenue from clients but have not accounted for it. In such cases, a mechanism whereby government receipts can be controlled must be instituted from their printing to the final disposal of the revenue collection.

There are cases of fraud also in the pension payment system in which the pension payment slip is duplicated and distributed to non pensioners to collect a huge amount of pension funds for personal use. Here again, the need to review the internal control system periodically and improve it is evident.

Conclusion

It is essential to design an appropriate public financial management system having a proper legal backing, to monitor its adequacy periodically, and to take timely measures to minimize financial management weaknesses which have a negative impact on accountability and transparency. It is equally important to train an adequate number of accountants to implement the system successfully. It is evident that the periodic review of public accounts by the Auditor-General enhances accountability and transparency. But the Auditor-General should possess the independence required in terms not only of reporting to Parliament but also of budget availability and recruitment and administration of his staff.

B. Paper by Mr. Ato Mammo Gitto Foli, Head, Department of Inspection, Ministry of Finance

Ethiopia's financial management system

Ethiopia does not have a single "financial management system." Indeed, such an all-encompassing system does not exist in practice, and for that reason I find fault with much of the issues paper. There are two types of systems that it is vital to distinguish between: financial reporting systems (including budgetary supply and appropriation accounting), and other financial management systems such as procurement, payroll and aid management systems.

In the context of the above, the main characteristics of the Ethiopian Government's current financial reporting system are as follows:

- It is a cash-based, single-entry system, i.e. ministries do not include in their annual financial report a statement of financial assets and liabilities held and consumed;
- Individual ministries do not in fact produce these annual financial reports themselves; they are prepared by the Ministry of Finance (MOF), based on monthly expenditure reports;
- Ministries produce monthly cash expenditure statements manually; payments and receipts are made and recorded on a manual basis.

The main characteristics of the Ethiopian Government's current other financial management systems (restricted to those identified in the issues paper) are:

- Foreign exchange allocations: ministries are asked to estimate their foreign currency requirements for every financial year;
- Aid management: as per the issues paper;
- Accounts payable: the Ethiopian Government has no accounts payable system;
- Payroll: as per the issues paper; Ethiopian public bodies maintain tighter controls over the payment of salaries than indicated in the issues paper;
- Procurement: the system is under reform; its main aspect is the involvement of MOF as an approval mechanism for large value contracts.

An overview of the federal Government of Ethiopia's financial management system is provided in section 2 below.

(a) General comments

There are a few general comments to be made before we get to the detailed consideration of the items in section 2 of this paper.

Firstly, strengthening transparency and accountability are laudable objectives in themselves, but are not sufficient to ensure the removal of corruption. For instance, ministries can produce financial reports on a timely basis but senior members of these institutions can still be involved in procurement corruption. As suggested by Transparency International rules, regulations and procedures can be well documented, but if the environment that staff work in and the examples given by senior staff to junior staff are not appropriate, these rules are almost useless.

Secondly, I strongly agree with the assertion in the issues paper that much benefit is gained by reporting and taking appropriate action against corruption of senior political figures. The message gets across more effectively that corruption at all levels will not be tolerated.

Thirdly, it is an attractive idea that developing countries can take and use "model" systems from the developed world. Experience shows that, although developing countries can learn from the developed world, sight should not be lost of the different cultural and educational aspects.

A final general point is that one element that is required to reduce corruption is to stop equating bureaucracy with control. Strong controls are not effected by requiring more signatures on a document. More effective controls are based on review and analysis, and the strengthening of systematic controls such as external and internal audit functions, e.g. the review carried out in the issue paper's example of payroll corruption is, exactly the type of task that an effective internal audit function would carry out.

(b) Comments specific to the cases in the issues paper

Foreign exchange allocations

There are two main issues in this case: the contracting procedures of the parastatals and the budgetary review procedures of the Treasury.

Parastatals have to procure imports. Procurement procedures and controls should be established, e.g. open and transparent evaluation under which the best tender must be accepted. An effective internal audit system would highlight where this was not the case.

Aid management

If public servants are involved in corruption with donors' funds, donors should press charges. If government officials find that a civil servant has been engaged in corrupt practices with a donor's funds they should recommend that the donor take legal action and the Government should take action against the staff member, e.g. through suspension.

It should also be pointed out that NGOs have professional external and internal auditors. The main issue here is lack of clarity in responsibilities between NGOs and government bodies. Discussions should take place with NGOs to agree and establish each side's expectations and responsibilities.

Failure of political will

It is difficult to know how to deal with this type of problem. There are some ways that this type of practice can be reported to institutions independent of government. For instance, senior civil servants can be made to report to such bodies as the supreme audit institution in a country. In Ethiopia, this will soon be a requirement (Ministry of Finance's directive on financial responsibilities). The main problem is in persuading senior government officials that what they are dealing with is public money, not their own, and that they are as responsible for its use as civil servants are.

Management of payroll by exception

This is not really a failure of the "management by exception" of a payroll. It is difficult to understand why management of the payroll is not a responsibility of the agency involved. There appears to be no grounds for citing "security reasons" since it is the body's payroll after all.

Simple controls such as requiring an identifiable number to be given to each individual civil servant may help to prevent corruption; however, in a scenario such as this one where senior members of staff from central institutions and agencies are colluding I think higher-level controls are in order, for example, level of salary, existence of code of ethics, proper rotation of staff, etc.

Procurement

Certain aspects of any procurement system are always open to manipulation specifications and evaluation. However, having sufficient and properly trained staff in place, rotation of these staff to and from different departments, and a stated, clear code of ethics goes a long way to preventing corruption.

In my experience, one of the weaknesses of government procurement is notifying unsuccessful tenderers why they were unsuccessful. Lack of transparency leads to suspicion among suppliers. In addition, it should be made clear at all times that any attempt to influence the procurement procedure will lead to removal of any bid and to follow-up legal action. Government must always follow this up to enhance its claim against corruption.

Loans to parastatals

I agree that, as a matter of fact, parastatals are less subject to audit scrutiny. Perhaps a quite different scrutiny is necessary e.g. by a private audit firm. I do agree strongly on the point about the need for proper record keeping.

Overview of Ethiopia's financial management system

(a) Legal framework

The new federal Government of Ethiopia's Financial Proclamation laid down the principles and elements which govern a modern and efficient financial administration management system. It should be based in law, and rights and obligations should be clear and transparent.

Certain deficiencies in the 1981 Financial Regulation have been noted. They pertain to the appropriate authority for establishment of public funds, responsibility for the receipt and disbursement of public funds, and the basis of accountability.

The objectives of a new financial legal framework are:

Consistency in financial management practice;

Financial accountability and responsibilities; and

Provision of budget transfers within public bodies, grace period at the end of the fiscal year, public debt management, commitments, retention of financial records, authority to invest public money, offences and punishment, write-off, and federal and regional financial relations.

(b) Ministry of Finance: financial management system

The financial management of government funds falls under the responsibility of the Ministry of Finance (MOF).

Financial management within the Ministry of Finance is divided among departments:

- Budget Department;
- Treasury Department;
- Credit and Investment Department;
- Central Accounts Department.

The Budget Department is responsible for receiving from the public bodies their proposed annual budgets for recurrent expenditure. It then reviews them and negotiates adjustments on the basis of ceilings with the public bodies so that the total frame is reasonable within the resources available. Finally, it submits the aggregate recurrent budget to the Council of Ministers and the Council of People's Representatives for approval.

The Treasury Department is the payment arm of the federal Government. It is responsible for controlling the budgeted expenditures and issues the payment certificates. The payment certificates are addressed to the National Bank of Ethiopia (NBE) for execution and payments are made into the public bodies' sub-accounts.

It makes payments to foreign lenders and distributes federal Government subsidies to regional governments. All payments made from the central Treasury account under 7 million birr are signed by the head of the Treasury Department, and payments over 7 million birr by the Minister or Vice-Minister of Finance.

The Credit and Investment Department is responsible for administering records of all government debt, that is both internal and external, and monitoring public sector organizations (parastatals).

The Central Accounts Department is responsible for producing financial accounts for the federal Government's operations and consolidated accounts of the federal Government and regional ones. The Central Accounts Department receives the following from the Treasury:

- Bank statements;
- Payment orders (or certificates) from the public bodies; and
- Monthly reports of revenue and expenditures.

The department reconciles the expenditures provided in the monthly reports of the public bodies with the bank statements and payment orders. The process concerning the revenues is similar to the expenditure system.

The financial management procedures within these departments can be divided as follows:

- Requests for funds;
- Accounting for foreign and internal debt;
- Foreign loan and other foreign payments;
- Bank accounts, cash book and reconciliation;
- Processing of accounting for funds;
- Reports.

Detailed MOF system description

Procedures to request funds

Each federal public body and regional government is allocated funds in the annual budget. The budget is divided into capital and recurrent expenditures, and is further divided into line items. Expenditure is made according to the line items. Within the public bodies, there are several departments; and within a department, there are projects.

Public bodies and regional finance bureaux request their funds allocation from the MOF. Requests are made on a monthly basis and separately for recurrent and capital budgets. However, the request procedures are the same for both.

Requests for recurrent budget funds are controlled by disbursements (recurrent) section, and capital budget funds are controlled by disbursements (capital) section.

Each of the sections maintains ledgers for all budgetary units. At the beginning of the financial year, a controller enters all the budget amounts by line items for his budgetary units in the ledger book. These budget amounts are reduced by each request for funds.

When a request is received at the MOF, the responsible controller checks that funds are available for each of the line items on request. If they are, the controller enters the amount in the last column of the request form and initials the request. If a budget line item does not have sufficient funds, the controller enters the balance that is available in the last column of the form. The request form is sent to the head of the recurrent or capital budget section and the head of the Treasury Department for approval. If the requested amount in total exceeds 7 million birr, only the Minister or Vice-Minister may approve.

After all the approvals have been obtained, the following steps are taken:

The controller files a copy of the request;

- Archives file one of the copies and send the others to Central Accounts;
- Central Accounts file one copy in the pending payments file and send one copy to the National Bank of Ethiopia (NBE) as an authorization to pay; and
- NBE sends Central Accounts a bank statement and copies of all debit and credit notices on a daily basis.

At the end of the month, each controller writes a list of all funds requests approved in that month. The list is sent to the data-processing centre for a journal listing which is received by the controllers for corrections, if necessary. Finally a monthly report is produced for approval.

Foreign and internal loans procedures

Foreign debt consists of loans to the central Government and other public sector entities. Records on all foreign and internal debt are maintained by the Credit and Investments Department and entered into central data processing. The Credit and Investments Department has its own debt monitoring and financial analysis system installed on a personal computer.

Budgetary allocations

Budgetary units (public bodies) are required to account each month for funds received before getting the allocation for the next month. Accounting for funds is done on Form 29. Every project within a division has to complete this form. It must be filled and delivered to the MOF. Central government budgetary units are required to have the forms in by the 10th of each month while regions have until the 25th of the following month. There are more than 120 reporting units with the federal Government and 11 regions.

Form 29 actually contains several different forms:

- Form 29/1 is used to account for revenue collected by the public body or regional finance bureau;

- Form 29/1/1 is used to account for grant revenue only. These grants are relief and rehabilitation, structural adjustment and technical assistance programmes. The budgetary unit or regional finance bureau has to specify if the grant was made either in the form of cash, material or technical assistance;
- Form 29/2 is used to account for recurrent expenditures listing all the line items against which the expenditure is entered accordingly;
- Form 29/2/1 is used to account for recurrent budget expenditures financed by grant funds;
- Form 29/3 is used to account for capital expenditures. It lists the expenditure codes and categories that expenditures are entered against;
- Form 29/3/1 is used to account for capital expenditures paid with grant funds;
- Form 29/3/2 is sent to accounts for capital expenditures using loan funds;
- Form 29/4, a summary of the above revenues and expenditures, is used as a trial balance. The cash on hand and in the bank is also entered on the form and corresponds to the difference between revenues and expenditures. The form covers:

  Recurrent funds received and used;

  Revenue collected and used;

  Capital funds received and used;

  Salary and allowance funds received and paid out; and

  Cash on hand.
- Form 29/4/1 is used to summarize grant funds only;
- Form 29/4/2 is used to account for capital revenue and expenditure only; and
- Form 29/5 is a cash flow statement. It lists all revenues and expenditures by broad categories and ends up with the unused funds.

MOF reports

The MOF can produce adequate reports on what categories of expenditures were made. The reports produced include:

- Authorized payment by budgetary unit and line item;
- Outstanding authorized payments;
- Daily cash book; and
- Cash payments and receipts by organization.

The report on authorized payments by organization and line item is produced at the end of each month by the Treasury Department.

The report on outstanding authorized payments is produced at the end of each month by the Central Accounts Department.

The daily cash book is produced every day, one day in arrears, by the Central Accounts Department.

The report on cash payments by organization is produced at the end of each month.

MOF system features

The government accounting system uses the single-entry method, on a cash basis. The financial management system is uniform at all levels of budgetary unit. The MOF issues financial instructions.

The key strengths of the financial management systems include simplicity, uniformity, segregation of duties and record keeping.

The accounting system is very simple since all financial transactions are recorded using the single-entry method and all records are maintained on a cash basis. This is appropriate for the accounting staff.

The accounting systems are uniform at all levels of budgetary units. All procedures and forms are the same. The financial systems within the MOF are well segregated by department and by personnel within the departments.

Government budgetary unit payroll system

General

For controlling purposes, the payroll of each federal budgetary unit is prepared and distributed centrally by the Ministry of Finance through the Computer Data Processing Department.

Except for temporary and new recruits awaiting inclusion in the payroll, no government employee may be paid unless his/her name is included in a government payroll.

Alterations to the rate or amount of pay of any government employee on the payroll shall be in accordance with written advice of increment or a letter of promotion or their equivalent issued in due legal form.

Unless otherwise directed (instructed) by the Ministry of Finance, payment to employees shall be made on the last working day of each month.

Payment to employees shall be witnessed by the financial controller or the personnel manager of the independent budgetary unit concerned.

On receipt of pay, employees sign for it in the space provided on the payroll. No person can receive pay on behalf of any government employee, unless the employee to whom the pay is due has provided a properly signed and witnessed authority to draw on his behalf. The authority is attached to the pay sheet.

In the event of the death of an employee, salary due shall be withheld until legally established and with written approval of the Ministry of Finance.

Any government employee dismissed or deemed dismissed in accordance with the public service regulations draws no salary from the date of his/her dismissal.

Accounting aspects of the payroll

The monthly pay operation comprises four separate accounting stages:

Receipt of the net amount of the payroll from the Treasury in the form of a cash allocation;

Actual payment to employees and entry of gross figures in the cash book and the monthly receipts and payments;

Any correction to the gross figures resulting from non-payment to one or more employees; and

Refund of any part of the net cash allocation to Treasury.

Cash allocations for salaries, wages and allowances are paid to budgetary units after deduction of money legally deductible such as taxes, pension contributions, salary advance, loans and any other moneys due to the Government.

After the relevant monthly payroll has been closed, the entries made in the cash book and monthly statements are:

The gross amount of the salaries and allowances shown on the payroll and entered in the paid column of the cash book; and

The totals of each deduction in respect of revenue, i.e. income tax, fine; loan interest and pension contributions are entered in the cash book (received column).

Transfer of employees

When government employees are transferred from a payroll in one budgetary unit to another, the Ministry of Finance is informed by an independent budgetary unit.

Loans to government employees

No loan to an employee is made without written authorization of the Ministry of Finance.

Loans to employees are repayable within twelve consecutive months.

It is the responsibility of the disbursements controller to ensure that deductions are made in accordance with the agreement.

Government budgetary unit: procurement procedures

Every government budgetary unit procures goods and/or services in accordance with regulations and instructions issued by the Ministry of Finance.

Procurement through foreign loan or aid is governed by the terms of the agreement which shall comply with the provisions of the Ministry of Finance’s regulations.

Government goods and services shall be purchased only with the funds allocated in the annual budget for procurement of goods and services.

Methods of procurement are by (i) open tender, (ii) limited tender, (iii) negotiation, and (iv) purchase without tender.

All government purchases of goods and/or services are made only by tender except in special circumstances.

Where the number of suppliers or service contractors is known to be limited or where there is good and sufficient reason, purchase may be conducted by a limited tender without following the normal tendering procedure.

Purchase without tender may be conducted by direct negotiation with suppliers or service contracts in the following circumstances:

Where the number of suppliers or service contractors is limited to one;

Where the spare parts are available only from the supplier of the machinery or equipment; and

Where the need arises to procure additional goods of the same type from the same supplier or service contractor who recently won a tender or with whom an order was placed within the last six months as a result of a tender, as a follow-up order for up to one quarter of the original quantity, at the same price, and under the terms and conditions of contract.

For procurement without tender the maximum amounts are as follows: (i) in the open market up to 1,000 birr for any one item or combinations of items in a single purchase order or contract; and (ii) by inviting written quotations from a minimum of three suppliers or service contractors for purchases from 1,000 to 10,000 birr for any one item or combination of items in a single purchase order or contract.

In respect of procurement by tender, tender documents shall be prepared in advance and the invitation to tender should be publicized through the modes whereby competing bids shall be invited, received and evaluated in accordance with the criteria set forth in advance.

The tendering procedures are:

- Open and fair dealing;
- Tender documents;
- Invitation to tender;
- Instructions to bidders;
- Specifications;
- Terms and conditions of contract;
- Tender box;
- Submission of bids;
- Bid opening;
- Disqualifying of bidders;
- Time for submission of bids;
- Validity period;
- Cancellation of the tender;
- Number of bidders; and
- Criteria for evaluation.

2. GHANA

Paper by Mr. Osei Tutu Prempeh, Auditor-General

Pension payroll

Pension payments for retired public servants on government pension systems are charged directly on the Consolidated Fund and until fairly recently no provision was made in the annual estimates for officers due to retire to allow for variance analysis between actual and budgeted costs.

The government pension payroll administered by the Controller and Accountant-General caters for retired public servants whose monthly emoluments, while they were in active service, were also paid by the Controller and Accountant-General.

The Controller and Accountant-General is also responsible for processing pension payments for pensionable officers of self-accounting organizations within the government machinery whose active service payroll is handled entirely by these organizations without any direct involvement of the Controller and Accountant-General. Submissions made by these self accounting bodies are used as pension inputs by the Controller and Accountant-General.

Until June 1995, Government’s active-service and pension payrolls were designed and computerized without consultation with the Auditor-General to determine whether adequate controls and audit trails had been incorporated into the system. Since July 1995, a new integrated personnel and payroll database system (IPPD Project) has been introduced for the civil service and other public services whose payrolls are processed by the Controller and Accountant-General’s Department. The office of the Auditor-General played an advisory role in the implementation of the new system.

There are no linkages or interface arrangements between the active service payroll of the Controller and Accountant-General’s Department/self-accounting organization and the pension payroll run by the Controller and Accountant-General. Inputs to the pension payroll are therefore not validated by reference to the active service payroll to establish the prior existence of names on the active service payroll as a condition for entry into the pension payroll.

Because of poor design, the pension payroll has no features like personal identification number, former place of work, date of birth, date of retirement, age on retirement, etc., and therefore cannot generate information reflecting these features for any follow up action.

Conclusion

The weaknesses in the pension payroll system have led to unauthorized insertion of names of ineligible persons on the pension payroll which have been discovered by this office as well as the Controller and Accountant-General’s Department. Recently, over 200 names were deleted from the pension payroll as a result of a special review carried out by this office.

A new system is being designed by the Controller and Accountant-General to address among other things the weaknesses in the present system. However, the effectiveness of the system can be enhanced if, prior to implementation, a census of pensioned officers is carried out as a cleaning exercise and also if basic personnel data on pensionable officers serving in self-accounting organizations are captured, validated and stored by the new system, and used as a source of reference when pension payments fall due.

The cost

Over 80,000 personnel are on the Government’s pension payroll and the outdated system precludes any clear determination of bona fide pensioners. Opportunities for the perpetration of pension irregularities continue to exist and can only be discovered on an ad hoc basis for lack of adequate controls and audit trail in the system. Scarce budgetary resources therefore go down the drain at the expense of the overall national development requirements.

C. Paper by Mr. Raphael K. Tufuor, Deputy Controller and Accountant-General

Introduction

There are two levels of government in Ghana (central Government and local government). There are 110 District Assemblies under local government. They are responsible for their accounts. The central Government operates the Consolidated Fund and other government accounts. The Controller and Accountant-General is responsible for operating the Consolidated Fund on behalf of the Government.

The Consolidated Fund is the designated account authorized by law to receive all revenue or other moneys raised or received for the purpose, or on behalf, of the Government. Other government accounts represent those maintained by ministries, departments, and agencies for the purpose of carrying out the functions of government.

The 1992 Constitution of Ghana, the 1979 Financial Administration Decree (FAD), the 1979 S.M.C.D. 221 and Financial Administration Regulation (FAR) L.I. 1234, and other instruments of incorporation govern the administration of the local government account, the Consolidated Fund and other government accounts.

The accounts of the District Assemblies are prepared and audited by the Assemblies and Auditor-General.

By law all central government accounts must be prepared under the double-entry system. The Consolidated Fund and other government accounts are audited by the Auditor-General.

The financial year of government is the calendar year (1 January to 31 December).

Prior to 1993 the preparation of the accounts of the Consolidated Fund was in arrears. Many provisions in the FAD and FAR had not been complied with. Fair estimates were therefore used by the Government to determine its financial position. Since 1993, however, preparation of the Consolidated Fund accounts has been on time, i.e. before 31 March of the following year.

The audit of the accounts is, however, two years in arrears. The auditors issued a disclaimer opinion on the 1994 accounts and they are finalizing their report on the 1995 accounts.

Like other financial management systems of third world countries, Ghana’s has been saddled with a lot of systemic and compliance problems ranging from budget preparation to accounting for budget execution. Many initiatives have been taken in the past to address these problems. These initiatives include the introduction of drawing limits for ministries, departments and agencies and an expenditure tracking and control (EXTRACON) system. Some of these initiatives had significant impact but others did not.

As a means of adopting a holistic approach to financial management problems in Ghana, a public financial-management reform programme, (PUFMARP), has been put in place to address the problems systematically and provide a machinery to keep the public financial management system up to expectation.

System background

Revenue collection

There have been considerable delays in transferring revenue collected by the revenue collection agencies, Internal Revenue Service (IRS) and Customs Excise and Preventive Service (CEPS), from the commercial banks to the central bank (Bank of Ghana). Some transfers in the past have taken about three months and there are exceptional cases where transfers take more than one year to be credited in the Consolidated Fund, one of the main reasons being that the revenue agencies could not insist on transferring all balances because the transfers included uncleared cheques.

A second reason for the delay is that by law no bank in Ghana is allowed to raise charges on government accounts. Commercial banks therefore have an interest in delaying the transfers in order to reduce/eliminate the cost of operating those accounts for the Government.

To improve the monitoring of these transfers, transit accounts have been opened in all the commercial banks affected. Those banks are required to transfer, on a daily basis, all the cleared cheques into these transit accounts and, on the same daily basis, make transfers from these transit accounts to the Bank of Ghana. Since this system was introduced there has been a reduction in the time taken for collected revenue to reach the Consolidated Fund at the Bank of Ghana.

Cash management

Expenses are sometimes paid without reference to the cash position. It is therefore difficult to determine the financial risk taken by paying for certain expenses. The Government's cash book is one month in arrears, as are bank statements. It is therefore very difficult to estimate the required cash resources for subsequent months in the budget year. This leads to high interest costs as a result of unplanned domestic borrowing.

We have introduced a software to reconcile the cash balances kept at the Controller and Accountant-General's offices with the balances at the Bank of Ghana. The effect of this change is at present minimal because changes going on at the Bank of Ghana make it impossible to have 24 hour access to bank data for reconciliation. Such data are obtained three days after the end of the month.

Lack of preparation of accounts at the ministries, departments and agencies.

The ministries and departments have so far not prepared their own accounts. This is due to the following:

Misunderstanding by some heads of ministries and departments as to their responsibility to prepare the accounts; and

Insufficiently trained accountants.

The Controller and Accountant-General’s office has a training division for all staff. A major training scheme that addresses the preparation of accounts by ministries, departments and agencies is yet to take off.

Receivables management

Advances and loans given to the private sector and state owned organizations are sometimes not repaid by the beneficiaries. A collection unit to chase the defaulters is about to be set up.

Linkages

The level of linkages (interface) between ministries, departments and agencies is minimal and thus information relevant to other departments can not be accessed. This is being addressed under PUFMARP.

System features

Most of our systems are manual. There have, however, been some recent initiatives to automate critical functions that lend themselves to automation and can benefit from the existing infrastructure. Some of the systems that have been automated are personnel and payroll, and final accounts compilation (at the national level).

Interestingly, our budget preparation and Treasury systems are still manual.

Conclusion

Although the Constitution and law require accounts to be prepared on time, only the Consolidated Fund account now is. The main weakness of the current system is the lack of effective and efficient management of government revenue, expenses, assets and liabilities, namely: public debt and investment; advances and loans; payroll; fixed assets; inventory; accounts payable; and pensions.

These issues will finally be addressed under PUFMARP. In the meantime, attention is focused on preparing all accounts and complying with all the provisions in the law.

3. KENYA

A. Paper by Mr. David N. Nzomo, Professor, University of Nairobi

Perspective

The Secretariat's issues paper is enlightening. It is also comprehensive and substantive. However, "participants are not restricted to the issues which have been identified by the Secretariat." Accordingly, my observations and comments initially focus on my perception of the key concepts and the Kenyan financial management system as it is supposed to be. If time allows, some cases of deviations from what should be will be cited.

Public financial management system (PFMS)

The issues paper uses the above term to mean governments, state enterprises, municipalities, county councils, etc. In Kenya, publicly traded companies (generally understood to be public companies) are privately owned. Their equity instruments are publicly traded in the Nairobi Stock Exchange. The term PFMS might, therefore, be misunderstood if not misconstrued.

Presuming that “finance” and “management” are commonly understood, the only needed clarification would be with the addition of "systems" from the perspective of accounting. A system is perceived in three broad aspects of (i) records, memos, receipts, invoices, contracts, journals, ledgers, etc., (ii) procedures for data capture and processing, journalizing, posting, casting, etc., and (iii) personnel numbers, calibre, technical competence, professional ethics, etc. Deriving from the text of the SIP, weaknesses or inadequacies would basically lie in personnel. This is where the systems design originates and the procedures are carried out.

Solutions for reinforcing transparency and accountability

The term "solutions" is too presumptuous and I would like to call them "proposals". "Reinforcing transparency and accountability" assumes that both transparency and accountability are there, and broken down but I doubt if that is the case. Sometimes I am of the view that they were never there and what is needed is to bring them about. The challenge then is in knowing them and how to bring them about.

Transparency is the state of being entirely visible, easily detected or seen through, something that is obvious and readily understood, something that is clear. The conceptual structure of transparency is composed of truthfulness, fairness and justice. That which is true must be genuine and that which is fair must be free from bias or injustice. That which is just, must be equitable and therefore, fair. As justice must not only be done but must also be seen to be done, transparency must prevail. Therefore, transparency must encompass presenting the truth fairly in order to administer justice.

That which is transparent must be open for scrutiny or examination. The essential elements must be clearly understandable. The form as well as the structure should be comprehensible while the content in turn should have representational faithfulness. Truth and fairness will ensue automatically: that would be justice done and seen to be done.

Accountability is basically a political concept and no public financial manager escapes the impact or fallout. The right to govern derives from consent of the governed except of course in the cases of military rule and dictatorships. By conceding to be governed, the governed create an obligation on the governing to account. To account is to render an explanation in order to discharge the obligation.

The state and circumstances of being required, obligated or expected to give an explanation (render an accounting) is generally known as accountability. More specifically, accountability is defined (and we accept this definition) as ". . . the obligation of an employee, agent or other person to supply a satisfactory report, often periodic, of action or of failure to act following delegated authority." (Kohler, p.6.)

In a systematic progression of events and circumstances, accountability waits on governance. In fact, good governance is evidenced by accountability and transparency. Actually, without accountability and transparency, there can not be evidence of good governance.

Accountability is a fiduciary duty owed the governed by the governing. If there is no transparency, how can the governed know there is accountability? If there is no accountability, how can the governed know there is justice?

The Kenyan transparency and accountability framework

Stewardship responsibility to render an accounting is enshrined in the laws of the land. Accordingly, section 99 of the Constitution requires that "all revenues or other monies raised or received for the purposes of the Government of Kenya shall be paid into and form a consolidated fund from which no monies shall be withdrawn except as may be authorized by this Constitution or by an Act of Parliament (including an Appropriations Act) or by a vote on account passed by the National Assembly . . ." The section further provides that "Parliament may prescribe the manner in which withdrawals may be made from the Consolidated Fund or any other fund of the Government of Kenya".

To ensure that the spending organs of the Government render an accounting, section 105 provides that there "shall be a Controller and Auditor-General. .It shall be the duty of the Controller and Auditor-General:

To satisfy himself that any proposed withdrawal from the Consolidated Fund is authorized by law, and, if so satisfied, to approve such withdrawal;

To satisfy himself that all monies that have been appropriated by Parliament and disbursed have been applied to the purposes to which they were so appropriated and that the expenditure conforms to the authority that governs it; and

At least once every year to audit and report on the public accounts of the Government of Kenya, the accounts of all officers and authorities of that Government, the accounts of all courts in

Kenya (other than courts no part of the expenses of which are defrayed directly out of monies provided by Parliament), the accounts of every commission established by . . . Constitution and the accounts of the Clerk of the National Assembly."

At the conclusion of the audit, the Controller and Auditor-General "shall submit every report . . . to the Minister for the time being responsible for finance who shall . . . lay it before the Assembly.” [S105 (4)]

Elaborating on the duties and responsibilities of the Controller and Auditor-General is CAP 412 (Exchequer and Audit Act) making legal provisions for the management of the public finances of Kenya and the protection of public property.

CAP 412 was amended in 1985 to provide for the appointment of a Controller and Auditor-General (Corporations) to oversee accountability by the State’s corporations (parastatals). Accordingly, the accounts of every state corporation are to be audited and reported on annually.

Reports of the Controller and Auditor-General and those of the Auditor-General (Corporations) are available to the public and the issues raised therein are dealt with by both the Public Accounts Committee (PAC) and the Public Investments Committee (PIC). Both are committees of Parliament.

Under section 56 of the Constitution, Parliament may:

(a) Make standing orders regulating the procedures of the Assembly, and

(b) Subject to any standing orders made under paragraph a), establish committees in such manner and for such general or special purposes as it thinks fit, and regulate the procedure of any committee so established.

Section 57 continues to specify that Parliament may provide for the powers, privileges and immunities of the Assembly and its committees and members.

These committees (PAC and PIC) are referred to as "parliamentary watchdog committees" that enhance accountability, transparency and good management of the scarce national resources.

The accounting profession

In 1984, the Kenyan legislature enacted CAP 531 of the laws of Kenya to provide for the establishment of the Institute of Certified Public Accountants of Kenya [ICPA(K)], the Registration of Accountants Board (RAB) and the Kenya Accountants and Secretaries National Examinations Board (KASNEB). These three bodies constitute the pillars upon which the Kenyan accounting profession is founded.

Among the major functions of KASNEB is "to prepare syllabuses for accountants' and secretaries' examinations, to make rules with respect to examinations, to arrange and conduct examinations and issue certificates to candidates who have satisfied examination requirements". In the discipline of accounting, KASNEB conducts examinations in three successive stages, each containing two sections broken down into papers 1 through 18. In between papers 1 and 18 lies the substance of the technical and professional tools used in accounting and reporting as well as in financial planning and management. The certificate of "Certified Public Accountant" CPA(K) is awarded on passing all the papers. One then becomes eligible for registration as an accountant.

The Registration of Accountants Board (RAB) is one of the three regulatory organs established by CAP 531. Its major tasks include the registration of accountants and the issuance of practicing certificates to those who wish to render accounting services to the public.

The Institute of Certified Public Accountants of Kenya is the third regulatory organ established by CAP 531 to perform the following functions:

- To provide standards of professional competence and practice among members of the Institute;
- To promote research into the subjects of accountancy and finance and related matters, and the publication of books, periodicals, journals and articles in connection herewith;
- To promote the international recognition of the Institute;
- To advise the Examinations Board on matters relating to examination standards and policies;
- To carry out any other functions prescribed for it under any other provision or under other written law; and
- To do anything incidental or conducive to the performance of any of the preceding functions.

In order to promote standards of professional competence and practice among members, ICPA(K) issues accounting standards that should harmonize with such standards in other countries. Additionally, and in order to promote its international recognition, it became a member of the International Accounting Standards Committee, the standards of which are circulated in Kenya for information even though they are not mandatory. ICPA(K) is also a member of the International Federation of Accountants (IFAC).

The growth of multinational enterprises, the increasing interdependence of monetary systems as well as an increase in national governmental controls and regulation of foreign investors in many countries throughout the world, strongly pointed to the need for a coordinated approach to accounting on an international basis. This led to the formation of the International Accounting Standards Committee which is part of the International Coordinating Committee for the Accounting Profession, and therefore, of the International Federation of Accountants.

The International Accounting Standards Committee is the independent body designated to develop and issue international accounting standards for the preparation and presentation of audited financial statements, and to promote worldwide acceptance of those standards. As a member, ICPA(K) is expected to promote the adoption and use of such standards especially since the Kenyan economy is well populated by multinational enterprises. As of this writing, the Committee had issued 32 standards.

As at the end of 1996, ICPA(K) had a membership of 1,720 registered accountants. About 42% of them are in private practice- auditing, consultancy, etc. while 58% are employed in industry and government. According to projections of the need for accountants in the country, there should be 7,000 certified accountants. More importantly, in a country with a population of nearly 30 million, one would have to take a sample of 200,000 Kenyans in order to expect to find one accountant. That is really "a drop in the ocean".

Remarks

The framework for transparency and accountability is conceptually and legally in place. At issue is the disparity between expectations of the framework and practice. Reports of the watchdog committees are catalogues of outdated reports of deviations as documented by the pertinent reports of the Controller and Auditor-General.

That disparity between expectations and practice is the breeding ground for all manner of malpractice as described in The Anatomy of Corruption in Kenya

Legal, Political and Socio-Economic Perspectives (see references).

Corruption is a deadly socio-economic malady that is comparable to the AIDS HIV. No society known to me in human civilization has ever been completely free of some form of corruption. The difference is one of degree and its consequences. The challenge is therefore in detecting and thwarting its spread; containing and managing its effects in such a way as to inoculate the uninfected.

The role of NGOs has become suspect. "The President said some foreign NGOs were interfering in politics to influence political developments." (Daily Nation, 21 June 1997, p.1). A new book reviewed last month raises three critical questions: (1) To whom are aid agencies accountable? (2) Does their work actually accomplish its goals? (3) Are the agencies motivated by altruism or self-survival? (ibid., 9 May 1997, p.24).

My perception is that corruption in all its varied forms and aspects is the most serious problem. As for possible solutions, transparency is a major deterrent and probable cure. Perhaps professionalization of all the key functions in financial transactions could halt the spread by inoculating personnel with professional ethics.

References

Daily Nation. Nairobi.

International Accounting Standards Committee. International Accounting Standards. London.

Institute of Certified Public Accountants of Kenya. Kenyan Accounting Standards. Nairobi.

Annual reports and accounts. Nairobi.

Kivutha Kibwana, Smokin Wanjala and Okech-Owiti. The anatomy of corruption in Kenya - Legal, political and socio-economic perspectives. Nairobi, Claripress, Ltd., 1996.

Kohler, Eric L. A Dictionary for Accountants. Fourth ed. Englewood Cliffs, New Jersey, U.S.A., Prentice-Hall Inc., 1970.

Republic of Kenya. The Constitution of Kenya. Nairobi, Government Printer, 1979.

CAP 412. The Exchequer and Audit Act, 1972.

CAP 446. The State Corporations Act, 1987.

CAP 486. The Companies Act, 1978.

CAP 499. The Registration of Business Names Ordinance, 1962.

CAP 531. The Accountants Act, 1984.

4. SWAZILAND

A. Paper by Mr. Daniel M. Dlamini, Auditor-General, Treasury Department

Most accounting systems in Swaziland are computerized. They include the general accounting system, the payroll, income tax, graded tax, motor vehicle registration and central transport administration system. One system that is still manual is the procurement system of the government buyer.

The double-entry bookkeeping system is used.

You have suggested the following topics as areas on which discussions will be focused. I have made my comments on each topic. I admit they are not exhaustive, but they are sufficient to start lively discussion, I believe.

Advance foreign exchange allocation leads to hidden payments

Generally, foreign exchange payments are transacted by the Central Bank of Swaziland on the instruction of the Accountant-General who gets instructions from the ministry requesting payment in foreign currency. He will instruct the Central Bank to process payment in foreign exchange after having satisfied himself that it is legal. Legality, among other things, means that:

Claims against the Government are legitimate;

Funds were appropriated for the transaction; and

The minister requesting payment is authorized.

Problems of accountability and transparency arise, however, when the sponsoring agency pays the vendor of goods and services directly. With regard to accountability, neither the Auditor-General nor the Accountant-General is properly informed of the instruction by the authorizing office (Ministry of Finance for instance) that a payment transaction has been authorized. Nor does the vendor being paid inform either the Accountant-General or the Auditor-General of the transaction. Lack of this information breaches the fundamental accounting principle of transaction recording, which violates the very basis of accountability and transparency. The failure to inform both the Auditor-General and the Accountant-General heralds incomplete accountability of public debt, for instance if the vendor was paid on loan funds. The sponsoring agency is forced to rely on the paying agent's source of information that may or may not be backed by proper authorization.

Some aid is not public monies and misuse cannot be penalized

In Swaziland, some projects are left to the donors for implementation. The Auditor-General has no access to auditing such funding.

If the donor funds go to a parastatal, auditing responsibility is with the parastatal auditors. The donor's decision to transfer funds directly into essentially private banking accounts places acute limitations on the Auditor-General's ability to audit those funds.

Therefore, reportable issues are not exposed for public scrutiny and cannot be penalized as is done by the Public Accounts Committee.

Systems are strong and malfeasance is detected, but political will fails

I would like to think that the accounting system of the Swaziland Government is relatively strong. Malfeasance is usually detected. Although political interference is there to some degree, I would rather put bigger blame on accounting officers who will either consciously or unconsciously encourage payment for undelivered goods and services for what I have always seen as an easy way by those involved to siphon money out of government coffers to share the spoils with the colluding suppliers.

Example: Some years back the government buyer ordered and received some goods. Due payment was made for them. The supplier, on the very delivery day, turned around and borrowed those goods from the buyer because one of the supplier's clients was short of the same consignment. The request was acceded to but these goods were never reimbursed to the Government. A commission of enquiry confirmed this malfeasance but nothing has been done to date to punish the buyer.

In this case, it was both political and bureaucratic will that failed to take the necessary action.

Management by exception in outdated payroll system does not detect fraud

The Government's centralized payroll system is designed so that each unique employee number can be paid only once per month. Duplicate salary payments will only happen outside the computerized system. In order for this to occur, the payroll clerk and someone else, at least, must be in collusion to defraud the Government. If it does take place within the computer system, the benefiting person will certainly have a second employee number and collude with another person to defraud the system.

The most prevalent problem with regard to payroll's apparent defect is failure by the responsible ministries to stop the issuance of pay cheques to officers who have left government service.

Accounts payable (procurement)

The problem in this area in Swaziland boils down to:

Short supplies for full payment;

No supply for full payment; and

Wrong supplies for full payment.

Loans to parastatals

In Swaziland, we do have cases where loan agreements are not written. If there are written loans, they are not known to the Auditor-General who should monitor their performance.

The classic procedure of how unwritten loans occur in Swaziland is that the Government is required to improve the cash flow position for, say, a parastatal bank by investing some of its funds in the expectation of redeeming the investment with interest when the Government is short of money for some reason. At this stage, the Accountant-General will be told that the investment had been turned into a loan by some higher authority. There would be no written proof of the loan agreement.

Conclusion

The above synopsis by no means epitomizes all the problems Swaziland has in public financial management. Others we have no idea how they happen. The living style of certain individuals suggests that fraudulent activities exist to finance it.

5. UGANDA

A. First Paper by Mr. Henry K.Bamutura, Principal Accountant, Treasury

Introduction

Before we talk of restoring transparency in government we need to address the issues of accounting processes and accountability first. It is the accountability that is not transparent. Most government accounting processes, as major ingredients of financial control, are lacking or ineffective. The accounts must exist before they are declared not transparent.

As stated in my other paper (see B below), the elements of planning (budgeting) and control structures (constitution or legislation governing management of public money) exist in all systems but what is missing is the operationalizing of the control process element by the people (human beings). Many government and donor officials do not see to it that accounting processes take place as per plans (budget) and control structures (rules) because of the human personal interests. Therefore, the level of accountability and transparency depends on the needs of the people in the environment. If the majority in the public entity need accounts and detailed explanations of variations of accounts from the budgets (plans), the Government/manager will be forced to produce them. If management/Government does not need to be transparent, it will not allow the accounting process to take place effectively, and recording, summarizing and reporting will not be supported.

In most public entities, the audit and financial regulations are clear and the financial and accounting instructions (finances and stores) are well documented. Although these rules and control structures are in place to help set the levels of accountability and transparency, they cannot be effective ingredients of control structures and the entire financial control system without allowing the control processes to take place. Most of these rules are seen as mere bureaucratic procedures that delay implementation of government programmes, forgetting that the resources are for the public and must be used according to publicly set rules.

It is true that third-party review, in effect a second opinion on the levels of accountability and transparency being achieved, is supposed to be provided by ombudsmen, the Auditor-General and parliamentary public and statutory bodies/committees. But these bodies' effectiveness is undermined by their competing (sometimes ineffectively) with other organs/departments for financial resources. Many contravene the Constitution and Public Finance Act and break the rules in order to receive some assistance from donors by fulfilling the donor officials' demands. A case in point is when the Ugandan ombudsmen and Auditor-General receive proceeds of Danida funds in Uganda directly without putting them through the Consolidated Fund accounts in accordance with the Ugandan Constitution and Public Finance Act. Here the body that is supposed to enforce the rules, accountability and transparency undermines them. These receipts are not recorded in Treasury books, not reported and therefore not transparently shown as received. Even global bodies like the United Nations and its agencies have continued to break the control structures, the rules of the financial management system. All United Nations agencies' donations to Uganda are received contrary to the Constitution and Public Finance Act although they are planned for (budgeted) annually. They are not received, used and accounted for according to the financial control system in place.

A public financial management system can function well if the planning, the control structures framework, the official and unofficial review bodies, and the people therein are allowed to operate, and need the outputs of, the system respectively. The elements and ingredients of the public financial management system must continuously be reviewed to determine their effectiveness and efficiency. The output of the system must be useful, relevant, monitored, evaluated, and submitted to it again to see what went wrong and what needs adjustment.

It is true that a malfunctioning financial management system not only frustrates government efforts to manage resources effectively, but also offers opportunists a conducive environment behind which corruptive practices can evolve undetected. But the root cause is lack of recognition by the public and donor agencies that public financial resources are owned by public entities as assets which need a detailed description of what constitutes them. Without defining what constitutes public finances, it becomes difficult for the public financial management system to manage and control what is not known or even to develop financial strategies to protect the resources from environmental threats. Most Governments do not have detailed lists of what constitutes public assets and the United Nations should take the initiative.

Loss of accountability and transparency

Any system of financial management tends to yield less than the legislated levels of accountability and transparency when the health of the four elements of control (planning, control structures, control process, and people) deteriorates. It then fails to respond to the needs of the public or to comply with the rules, or loses its ability to carry out control processes like accounting (recording and reporting) as set out in the Public Finance Act, or disclosure becomes limited. The output in the end becomes incomplete, inaccurate, invalid and unreliable. This in effect is poor accountability or lack of it.

When the output of a public financial management system becomes unreliable, it means there are no effective internal control measures, the ingredients in the elements of control are in poor health, and unless reviewed and aligned on a continuous basis to achieve completeness and congruence, public finances will remain exposed to corrupt people in the environment.

In such circumstances, the Government and civil society should ensure that the four elements of control of government resources (planning, control structures, control process, and people) are each sufficiently healthy. More efforts should be made to ensure budgeting, accounting, recording, summarizing, bank reconciliations, reporting, boards of survey, monitoring and evaluation, and punishing and rewarding appropriately.

Ensuring that control processes take place according to the control structures as planned should be taken to be more effective than planning for administrative and judicial system changes. The need is for a record and knowledge of what is owned before responding to the environment of demands/offers.

Outcome of the Expert Group Meeting

The meeting seeks to explore, and propose practical remedies to, the process whereby weakened systems of public financial management signal their potential to serve as vehicles for corrupt activity. But to achieve this effectively we first need to define what public financial management entails, what constitutes the major elements and the ingredients of a healthy public financial management system and what constitutes, in detail, public financial resources of a public entity which the system is supposed to control. To understand/study fraud and corruption in government as products of a weak public financial management system, we need to understand the unhealthy elements and their ingredients in the particular government system and their treatment. Diseases in systems vary among Governments. Efforts and initiatives should be geared toward first ensuring that all control processes, especially the accounting process element, are operational and secondly improving on the health of all the elements through a processor reviewing the ingredients of each component in the control system.

Since it is generally perceived that a weakened unhealthy system is a vehicle for corrupt practices, the steps that can reverse this impression would include:

Making the public aware of what constitutes public financial resources, the usefulness of a financial system and financial strategies;

Ensuring that the accounting process takes place and is recognized by the Government as a major element or ingredient in the financial control process; and

Seeing that donors and the public recognize the existence of a public entity that has ownership of resources that must be accounted for according to set rules (Constitution).

A country's public financial management system should be separated from its economic management system. A financial management system looks at the financial resources of a legal entity, not of an economic entity whose resources are guarded by the market system. Therefore issues of foreign exchange allocations do not in any way exist as an element or ingredient of a public financial management system. Aid management, accounts payable, payroll management, procurement management and management of parastatals (government profit centres) are ingredients as responsibility centres in the control structure element of the public financial management system in government. Most of these control structure elements are affected by the lack of effective and efficient control processes in the system in these centres. The planning and control structure elements and the skilled manpower in government are required, but insufficient. What is missing is the accounting process: recording, summarizing, reporting, evaluating, monitoring, etc. by the Government and public. Official/donor agencies know there is no record of accounts or accounting process taking place and that they will not be traced by anybody for any resource that may be suspected to be lost by the unknown public entity that does not keep a record of its assets. Refer to the case analysis of Uganda (see B below).

Advance foreign exchange allocations lead to hidden payments

This is not part of public financial management systems, and the free trade of foreign currency in the market should only be allowed with a concomitant strengthening of the rules.

Some aid is not public monies and misuse cannot be penalized

The facts raised are true. Although the national budgets (plans) incorporate donor funds and the rules on receipt and issuance of the funds are clear to all parties, individual officials carry out control processes to the contrary. For example, the budgets of Uganda show the recurrent and development revenue sources and related expenditures. The Constitution and Public Finance Act provide for the receipt and issue of the funds and the public financial and accounting instructions provide for the procedures to be followed while carrying out the control processes. Practices of United Nations agencies and some bilateral donor agencies are not always conducive to implementation of the law. The receipt and issue of donor money contrary to the rules cannot be highlighted by the Auditor-General or Inspector-General of Government because they have continued to benefit from the same donors in the same way.

Conclusions

The Auditor-General are restricted because he also benefits from illegal receipts of competitive funds from donors and in a way becomes ineffective. This has led the Treasury to fail to prepare accounts for the receipt and issue of funds in the Consolidated Fund accounts of Uganda. (Reference is made to the Auditor-General's report on government accounts for 1991-1996) Because donors and government officials at the macro level are the beneficiaries of this situation, they have sustained it by ensuring that there is insufficient financial support for the accounting processes of the central Government.

The cost

The public entity (Uganda) does not know actual receipts and issues (recurrent and development) and therefore the public financial control system is not in control of the financial resources effectively, in effect keeping them at risk.

Planners have no basis to project, the control structures are rendered useless and the control process managers are frustrated.

Solutions

Donors and public entities/officials need to recognize that the recipient public entity has rules, processes and a management that require accountability.

Treasury should strengthen its accounting processes and those at the ministry level.

Treasury should make the accounting process outputs useful to stakeholders.

Parliament should reject new budgets from governments that fail to prepare and present final government books of accounts.

Systems are strong and malfeasance is detected, but political will fails

Facts

The facts and conclusions are true. In addition, economists who advise politicians ignore the accounting process and concentrate on planning for the future according to external environmental forces (market) instead of internal forces (social financial resources owned).

The Cost

The public entity fails to know what is actually owned, its well-being, and its performance when it does not keep this record. The sources remain at risk.

Solutions

Politicians and economists must know what the public finances are and provide internal strength to the public entity that is used to foster and protect their personal goals and is the basis for future plans. They need to be planned for, controlled and accounted for to ensure their effectiveness, efficiency and sufficiency.

New government plans should be approved by the public (Parliament) only on presentation of audited books of accounts.

Resources/support should be provided to strengthen the accounting process at all levels.

Management by exception in an outdated payroll system does not detect fraud

Facts

Although I agree with some issues highlighted as facts and conclusions, computerization is not the solution. The problem is lack of a plan of what input (labour) one needs in order to produce a public service, lack of adherence to set rules on recruitment, and lack of accounting for the output of whatever labour is paid. The accounting processes (recording and evaluation) of staff at work, the financial resources used on them and the publication of such data make the system defective in that no action is taken in response to duplicate reports.

The cost

The cost is high, but it is not reported or explained in footnotes of public accounts which are rarely prepared by Governments. The public can never take action on unreported figures in audited financial statements.

Solutions

Those responsible for public entities must be forced to prepare accounts and make explanatory notes for deviations (budget/actual).

Donors should support the control process element and its ingredients especially the accounting processes.

Accounts payable

Facts

The facts stated are correct. But what should be known is that the public entity has financial resources with a management that is required to plan, control through publicly-approved control structures and carry out control processes according to instructions issued by top management/Government.

Accounts payable and the process that creates them can only be open if the buyers and sellers (Government and the bidders) are operating in an efficient market.

The cost

Government and the Auditor-General are inefficient and ineffective because of their dire need for financial resources some of which they also receive unconstitutionally. Private sector audit firms aim for profit maximization, through obtaining more business from the same management and not the public. Their interest is for donor official activities to continue, with more auditing work given, and therefore the audit reports will support projects in these areas.

Solution

Auditors-General should be employed by Parliaments and private audit firms should audit public books of accounts on approval of Parliament through a competitive process. This is to ensure that taxpayers' interests are served.

Loans to parastatals

Facts

I agree with the facts presented. In conclusion, most parastatals have outlived their mission and need divesting. Treasuries are not in control of these parastatals as profit centres of government. The accounting processes at Treasury involving monies invested, on loan, and due to it by individual parastatals are not taking place, leaving public monies at risk.

The parastatals exist whenever the private sector is unable or unwilling to risk its resources in the sector/business.

The cost

The mission for a public entity is to provide efficient public service that the individual private entity cannot provide for itself or the community. The moment this is not done, the costs to the public build up and hurt the poor.

Solutions

Parastatals should be given a mission and when it expires, should be divested.

Parastatals should be made to develop financing strategies and go to the financial markets to borrow directly with government only as security for the loan.

Treasury accounting processes and staff need to be strengthened.

All parastatals operating in areas where the private sector is now willing to invest money should be sold off.

B. Second Paper by Mr. Henry K. Bamutura, Principal Accountant, Treasury

Introduction

Countries/local authorities as public legal entities have resources (assets), human, organizational and physical. Within the organizational resource, there are financial resources that provide money and contribute a great deal to its internal strength or weakness.

The financial resources can be listed to include all revenues or other moneys raised or received (donations, grants, loans) for the purpose of, on behalf of, or in trust for the Government, current assets, properties, buildings, land and other physical resources that can be exploited for the economic good of the country.

Government must manage these financial resources in the most effective and efficient way and public financial management systems are the most appropriate way to do so.

A financial management system can be defined broadly as a planned/organized systematic process and structure which has basically three related elements, each with a variety of ingredients that determine its health or effectiveness.

The first element of a financial management system is that it is a prescribed way of carrying out a financial activity or a set of financial activities which are usually repeated, to achieve a given goal or set of goals. The activities include financing, investing, operating and redistributing national resources by Government and transforming the country's financial resources into goods and services for public use.

The second element is the purpose of a public financial management system which is to induce/elicit the predetermined behaviour or actions by the people and the country in general, and presupposes there is a long-term plan or strategy for the country/local authority.

The third element is that, as a major organizational resource control system, it encompasses other functional and operative systems (accounting, information, storage and internal audit systems), while being part of the overall management control system of the public entity.

Every public entity or country has a financial management system that is used to control its financial resources during the transformation processes. Those systems are differentiated by their individual elements and ingredients.

Public financial control system study

The task before us is to identify:

What constitutes public financial resources that require a control system in the form of a public financial management system (PFMS);

What constitutes elements and ingredients of an effective and efficient PFMS in a country;

How best should the elements and ingredients of a PFMS be aligned to ensure efficiency and effectiveness in the management of public financial resources;

How often should the PFMS be reviewed or appraised by the Government in a given environment;

How to tame the environmental forces (inputs) in the PFMS; and

How to treat or handle the outputs of a PFMS effectively and efficiently.

Proposed approach to the study

The study should analyse individual elements and ingredients of a "complete" and "standard" public financial management system, and compare them to those in particular countries' systems. The aim is to provide answers as to why these countries' public financial systems are weak and propose applicable solutions for the different environments.

In my contribution, I am assuming a developing environment which is turbulent politically, socially and economically - democratizing, decentralizing and liberalizing - as is Uganda.

Management control system (MCS)

In the context of the general management systems theory, as discussed by various scholars, a management control system, like the public financial management system, requires setting goals, objectives and standards (targets), measuring actual performance to determine deviations, which when fed back into the system would trigger off corrective action.

Many studies have identified four elements or subsystems in any MCS, namely the planning, the control structure, the control processes and the people subsystems, all of them always working together in a continuous interrelationship. Their effectiveness and efficiency depend on the health of the ingredients in each element/subsystem.

Description of the components elements sub-systems of a standard system

The planning element details the direction or "bearing", vision, goals, objectives as well as ways and means (including strategies, policies) of attaining the goals and objective of the public entity.

The control structure element provides the framework of levers and parameters (like organizational set-up, performance measures, rewards, etc.) in which control is effected. These control levers or control decision variables are adjustable and can be changed like any other MCS element to influence the behaviour of individuals, groups (donors) as well as the organization or country as a whole.

The control process element outlines the "clockwork" of control. The control process indicates the procedural steps which need to be taken to effect control. They are sometimes termed long-range or strategic planning (i.e. outlining what type of products/services, projects or programmes will be offered over a number of years); budgeting and allocation of resources on a year-to-year basis; (assuming given programmes) performance measurement and variance analysis as well as feedback and rewards or punishment corresponding to performance.

The people element largely refers to both individual citizens and groups in their distinct being which is separate from that of the country, with their personal goals, beliefs, agendas, values, expectations, as well as competencies as distinct from those of the country as a whole.

It is the people who make things happen in countries/governments, so in any management control system they are considered to be central. It is assumed here that, in the final analysis, it is the people who will make a management control system effective and efficient.

Other things remaining equal, the greater the dichotomy between the official and documented MCS on the one hand and the undocumented personal agendas, goals, beliefs, values, personal aspirations and competencies of the people on the other, the less effective and/or efficient the (official) country MCS is likely to be and the harder it will be to drive the country towards specified targets.

Financial management system: the case of Uganda

The financial resources under the Government of Uganda include:

Tax and non-tax internal revenues collected by or due to it;

Donations (cash and other forms of assets) received in government books;

Grants (cash and other forms of assets) received in government books;

Internal and external loans received by government;

All other moneys raised or received for the purpose of, or on behalf of, or in trust for the Government of Uganda;

Cash/bank balances in the consolidated fund and with the accounting officers and receivers of revenues;

Advances to individual persons/companies not yet settled;

Stores, equipment, motor vehicles, plants, buildings and surveyed land, etc.;

Government investments in public and private enterprise (equity and debt); and

Any resource item the Government can easily convert into money/convertible assets.

The Constitution provides for the President to manage all resources of Uganda including the financial resources. He has mandated the Minister of Finance to do the financial managerial job which includes planning, organizing and coordinating public finances. He also provides leadership/direction and control on use of all public finances in Uganda. To effect control, he makes plans (budgets) and carries out control processes (accounting) using established control structures/departments (rules). The Minister employs a PFMS, a financial control system to manage departments and people who manage and control public financial resources as provided for in the Finance Act.

The Minister of Finance is also in charge of the health of the PFMS and is required to ensure that its elements are sufficient, effective and efficient.

Operations of the PFMS of Uganda

A PFMS has inputs and outputs, subsystems for planning, control structures and control processes that are managed by people. There is also feed-back. The details of each are analysed below.

Inputs

The resources, environment, history and management style interact in the PFMS of the country as indicated. The resources are human, organizational (financial) and physical. The environment includes: political stability, decentralization, legislation, privatization, regional, international and world developments plus technological change in all means of production, control and information. Management style includes: democratic government, public service, and the Treasury's financial and accounting instructions. All these enter the PFMS and influence its output and therefore are a factor in the effectiveness of the system.

Planning subsystem of PFMS that sets the direction

Vision - The Ministry shares a common vision with other ministries and the Republic of Uganda. "Building an independent, integrated and self sustained economy; for God and our Country" - these have always been the words of the leaders of Uganda. "For God and my Country" is the national statement fixed on all official seals and financial documents.

Mandate of the Ministry - The Ministry of Finance is responsible for financial planning and management of public finances. Its mandate is derived from the Constitution, the Public Finance Act and other laws passed from time to time, such as financing and appropriation acts.

Mission statement - The Ministry of Finance exists in order to manage and control public finances in a prudent and sustainable manner and to plan financial utilization to facilitate economic growth, efficiency, stability and elimination of poverty in Uganda.

Goals (key outputs expected):

- To control public expenditure, both recurrent and developmental (government counterpart, donations, grants and loans), both immediately and over the medium term;
- To ensure that monetary policies are consistent with the objective of promoting economic growth and stability;
- To ensure that revenue collecting centres/agencies are able to collect the revenue required by the Government without adversely affecting the development of the country's economic potential;
- To secure donor support in order to reinforce other resources available for economic development;
- To scrutinize the performance of the various sectors and sub-sectors of the economy in order to facilitate timely and correct decision-making aimed at promoting efficiency;
- To promote private sector investment;
- To promote the mobilization of local resources through the insurance and banking systems for economic development.

Objectives of the Ministry/Government - Over time, the objectives of the Ministry of Finance are:

- To control and manage public finances in accordance with the provisions of the Constitution and Public Finance Act;
- To maintain books of accounts and prepare final books for accounts and statements as required by the Public Finance Act:
- To administer the implementation of all statutory financial and accounting procedures and

regulations as may be required from time to time;

- To supervise and improve the performance of the economy, finance and accounts staff in ministries and departments, improving the welfare of the Ugandan population and effectiveness and efficiency in utilization of national resources.

Strategies - The overall strategy is to play a clear and focused role in the economy. The Ministry/Government is not involved in those activities best left to private business, but concentrates on promoting economic growth by providing a conducive environment for private sector investment, ensuring a basic standard of living for all by providing essential services which are not available to everybody through the market, and trying to maximize the effectiveness of government by improving the productivity and accountability of the public sector. There is, however, no financial strategy in place for Uganda. There exists only the debt strategy that is more to the donors' satisfaction.

Policies - The Ministry of Finance recognizes that while economic growth creates a dynamic environment within which most people will prosper, it does not ensure the well-being of the entire population. It therefore practises more focused policies for a widespread distribution of growth and to cut poverty while ensuring sustainability. The Ministry carries out a policy of spending only what is collected as taxes to cover recurrent expenditures of government. It runs a cash budget and no overdrafts. Increasing standard costs in the cost centres by paying a living wage, reducing government expenditure and limiting supplementary expenditures to three per cent of the approved budget cater only for priority programme areas (PPA) that focus on pressing concerns of society, e.g. agricultural research, primary education, and law and order.

Evaluation of the planning element

The planning aspect lacks actual historical financial data (books of accounts) as the government accounts are not prepared by the Treasury's Office of Accounts. The planning is therefore environmentally based and unable to marshal properly actual internal strength (finances) to fight the external threats (debt burden) to the economy.

Solutions to weaknesses in the planning element

Government must, as a priority, strengthen the institutional and accounting framework/department to ensure that accounting processes take place to provide planners with actual accounts of its financial resources at any point in time. Accountants' interests need to be addressed by the Ministry (training, pay, promotions and equipment).

Control structures subsystem of the PFMS framework within which financial controls are affected: Analysis of the ingredients in the control structures element

Responsibility centres

There are four types of responsibility centres: revenue, investment, profit and cost centres. Not all of these centres account fully to the Ministry of Finance or Government. Most make their final accountability to Parliament. Revenue centres are all government bodies charged with the duty of collecting tax and non-tax revenue owed the Consolidated Fund. Investment centres are all state-owned public investment companies. Profit centres are state-owned enterprises that provide services in the market at a profit. Cost centres are all ministries and departments that offer goods and services to the people as approved by Parliament free of charge. The cost centres are largely specialized and support departments to serve private people/business in Uganda. They include all ministries (like health, defence, public works, etc.) and technical departments under the Ministry of Finance (macroeconomics, accounts, budget, etc.) that provide specialized services to the Government like economic analysis and accounting for public finances.

Their cost/expenditures are allocated by Parliament according to the needs of the people. Revenue centres are given targets by the Parliament. Profit centres are only allocated capital funds and allowed to borrow by Parliament.

Organizational set-up

The organizational set-up of the financial management structure wove all the centres into a constitutionalized and statutory matrix. The Parliament is the topmost organ of the country on financial matters while the commissioners/heads of departments are the lowest warranted accounting units.

Top management structure

The President is the chief executive on financial matters. He has mandated the Minister of Finance to manage and control the activities of the Ministry of Finance under the Public Finance Act. The administration of day-to-day financial activities is under the direction and control of the Secretary of the Treasury assisted by two directors, one for administration and the other for budget. The technical departments in the management structure cover central accounts, taxation and industrial promotion, macroeconomic analysis, external aid management, computer services, economic affairs, budget, internal audit, general administration and finance, accounting offices and receivers of revenue (ministries), the revenue authority as a revenue centre, and parastatal bodies as investment and profit centres.

The organizational structure is generally supposed to be supportive of financial strategies and goals, which are not clear, as stated earlier.

The cost centres (ministries and departments) are headed by accounting officers (Permanent Secretaries) and commissioners are directly under the control of the Secretary of the Treasury on all financial matters. They are, however, directly accountable to Parliament for any financial irregularities. The internal organization of departments is largely on functional lines.

The profit and investment centres are headed by managing directors and directly controlled by a board appointed by the Minister of Finance on approval of cabinet. Their financial activities are subject to parliamentary investigations.

The internal organization of these public enterprises is largely on operational/service lines. The main revenue centre (Uganda Revenue Authority) is headed by the Commissioner-General who is directly answerable to a board appointed by the Minister. Other revenue centres for non-tax revenue are in the ministries and are headed by the receivers of revenue who are also accounting officers.

Receivers of revenue and accounting officers report to the Secretary of the Treasury who recruits, trains and supervises his own staff, assisted by the Commissioner/Treasury office accounts.

There are unintended conflicts and contradictions within this set-up. Attempts to resolve them are made in several ways including reviews of the organizational structures of the Ministry, privatizing some investment and profit centres, decentralizing central government activities, and strengthening the budgeting and accounting processes.

Performance measures

The performance measurement of cost centres is directed at financial efficiency and effectiveness and has employed performance measures as follows: actual expenses vs. budget, ability to service or control profit and investment centres, special contribution to projects as acknowledged by beneficiaries.

The measures employed for profit and investment centres include: profitability vs. budget, arrears and non-performing loans and return on assets (ROA).

The measures employed for revenue centres include: total collection vs. retention, contractual job/contracts and revenue targets versus actual collection.

The appraisal system is based on measurable performance indicators. There is also, however, subjective appraisal, which has no meaning in the public sector.

Reward and punishment system, performance linkages

In cost centres, rewards and punishments are as provided by the Constitution, parliamentary laws, appointing authorities like the President, the Public Service Commission, etc. Most of them are standard and set according to scale. Most profit and investment centres have their own punishment and reward system.

Information system for planning, evaluation and control

Information is the blood of the Ministry. It is to be collected and used in accordance with the laws, financial and accounting instructions and other public service regulations. Financial information is generated to plan the stock of public financial resources with all accounting officers/receivers of revenue. The Ministry of Finance generates other information from its internal diary of financial activities, including treasury obligations. Investment and revenue centres carry out individual inventories of financial resources at their pleasure. This makes it difficult for financial managers at the Ministry to get all the information required for financial planning.

Other cultures, values, beliefs and attitudes

Those are developed by civil servants as a result of regulations and procedures leading to continuous satisfaction of the same needs.

Standard operational procedures, rules and regulations

The PFMS provides the rules for the Ministry’s financial activities. They include the Constitution, the public financial laws, financial and accounting instructions, parliamentary committees directives, budget and accounting circulars, etc.

Evaluation of the control structures

There are sufficient controls in the PFMS of Uganda but they are not operative. They lack the support of the control process and the good will of the people in government and of donor officials who respectively receive and disburse public fund contrary to the structures in place.

Solutions

Government must respect the rules (control structures) put in place by the public and public officers who receive and use public funds contrary to set rules should be disciplined;

Donor entities must request proper accountability from their officials that adheres to the rules of recipient public entities if they actually donated the funds to them; and

People must respect the constitutional provision on management of all public moneys raised by the Government.

Analysis of the ingredients in the control process of the PFMS

Programming

Over several periods, there is a public investment plan in Uganda.

Budgeting

The budgeting process is carried out annually, identifying resources to acquire and allocating them to sectors of the economy, ministries and development projects. The budget is presented to Parliament for approval. The budget process, involving formulation of annual estimates of revenue and expenditure for a particular year, which is a financial expression of the Government's policies and programmes of activities, is completed with the passing of the appropriation bill.

Accounting

The accounting process that involves recording, summarizing, and reporting is not effectively carried out. The financial instructions requiring every cost centre, revenue centre and investment centre to submit accounts and other financial returns to the Treasury are not being adhered to. The reports of those who do comply are rendered useless for lack of an account process (consolidation of government accounts) at the Treasury.

Ministries can delay the process of preparing the Consolidated Fund's accounts at the Ministry of Finance. This is the problem the Treasury has been experiencing for some time. They have registered some improvement in recent times but a few ministries continue to be in arrears. Once the Auditor-General examines the balance sheet of the Consolidated Fund and related financial statements including those of ministries, he transmits them along with the report to Parliament. The same report is made by the Auditor-General in respect to audit reports on parastatals and the Uganda Revenue Authority, the government revenue-generating and profit-making centres and the revenue collecting centres.

The Public Accounts and Parastatal Accounts Committees of Parliament thereafter take up the reports and accounts for examination which is usually carried out by interviewing the accounting officers and executives of parastatals with a representative of the Ministry always in attendance.

After those meetings, the committees submit their reports and recommendations to Parliament. The Treasury (Ministry of Finance) is thereafter expected to take follow-up action to implement those recommendations. Accordingly, in discharge of yet another role, the Treasury consults the ministries concerned and in a memorandum sets out its position on the implementation of the recommendations that are in most cases aimed at strengthening the public financial management control system in the Treasury/Uganda. This completes the final act of the cycle of legislative and management control of public financial resources for every financial year, which in the long run assists management in achieving the objective of the Treasury/Ministry of Finance and that of the country.

People

The people in the Treasury, ministries, donor community and Parliament interact with the public financial management control system to generate an output in the form of the resultant performances of the individual(s), department(s) and ministry/country as a whole.

Output

The resultant behaviour of individuals (Minister, officers, managers, and leaders) has always been noticed. In recent years, people have become more confident about what they do and many donors are happy with the way the economy has been performing since 1992. The revenue collecting centres are more efficient because of the reward put in place for the workers, who now receive the highest salaries paid in the country. But because of low pay, cost centres are not efficient and effective. Their staff is threatened with being retrenched or laid off. In profit and investment centres people are more worried. There are a lot of economic activities taking place in the private sector in Uganda. Industries are being set up at a high rate. But this is not the case in rural areas where poverty, unemployment and poor health services are still keeping people from participating in development. The resultant behaviour of individual departments, institutions and parastatals changes because of the weak public financial management control system and the environment. The Ministry and country's behaviour also changes due to the public financial management control system in place. Due, in part, to the present public financial management control system the economy is growing at an average rate of 6 percent per year. But inflation, unemployment and debts are serious problems facing the Treasury/Uganda and impact the effectiveness of the public financial management control system.

Feedback

Referring to the information about the output of a MCS, it is important that feedback be returned to the subsystem so that the people, Minister, Secretary of the Treasury, heads of parastatals, commissioners, officers and managers in parastatals who are in the Ministry of Finance's responsibility centres can adjust the public financial management control system and its inputs. Human resources provide the physical resources of the transformation process, which may need adjustment or replacement, based on the nature of the feedback received.

Concerning the necessary elements of the public financial management control system in Uganda, it is reasonable to say that they exist but lack completeness. For said system to work in the country, the management information subsystem and attendant technologies are needed in the Treasury. Secondly, the elements in the public financial management control system must be sufficient for it to perform continuously in all the responsibility centres of the Government. In a country and world in flux and propelled by political and social economic restructuring involving privatization and liberalization of economic activities, there is a need for the Treasury to quickly consider streamlining the financial resources entrusted to it by the people, to put them under an effective and efficient public financial control system and computerized financial and accounting management information system supported by existing core staff in the Uganda computer service centre. The resources are abundant and only need coordination and direction by the Treasury's management in order to achieve the objectives of the Ministry/country.

System performance assessment - From the description above it may be noticed that most of the elements of the public financial management control system exist but for a number of reasons are not sufficient and efficient. There are informal factors that influence goal congruence, internally and externally, including the work ethic of public servants, the management style of the present leaders, the perception of the reforms taking place in the service, and the poor communication and personal conflicts among the people in the Ministry of Finance. There also are formal factors that have influenced the public financial management control system in the Treasury. These include the financial instructions and regulations, and the laws and acts in force. They have been there for too long and look indefinite and yet the world is changing. They have had a negative effect and hinder implementation for some programmes, however well conceived. Many people have left the service. These regulations need to be overhauled to ensure that any action by management takes into consideration how the people will perceive it in view of their interest, and also serves the public interest. Also, it has not been easy to align financial resources with strategies, and mobilize sufficient financial resources for implementation, because some centres like investment and profit, have not been aligned properly with the Treasury and have lacked targets and evaluation. The reward and punishment systems have also been inadequate.

Recommended solutions to the control process of the public financial management control system

For the Ministry of Finance to achieve its mission and serve the country, it must ensure that all its financial resources and those entrusted to it are under one public financial management control system, operating as one controllable unit.

The financial/accounting management information system in the Treasury should be computerized and all the attendant technologies and courses that people understand should be provided and used to coordinate the financial activities of many responsibility centres.

There is an ongoing need to access the environment in which the public financial management control system is operating and to adjust the resources and strategies to meet its requirements and those of its elements to ensure sufficiency, efficiency and effectiveness during the transformation process.

Strategically and optimally the financial resources and responsibility centres should be set to work together to give the Treasury/Ministry a sustained competitive advantage in the region and world when seeking additional funding. This will result in better financial results for the Ministry and well-being for the people of Uganda over a long period of time.

There is a need to continuously train human resources, develop their skills and financial management styles, and try to maintain them because they are the most important. It is the human resource that plans, develops other resources, coordinates, leads, monitors and controls the rest of the resources.

There is a need to ensure that all monies invested in investment and profit centres are returned to the Consolidated Fund on an annual basis and that a return on investment target is set by the Treasury/Ministry for each such centre.

There is a need to encourage rewards for people’s achievements and punishments for failures. Avoid paying people who are serving the same mission at different rates because it undermines behaviour in other centres of the Treasury.

Financial information in all centres should be planned for, generated, coordinated, and evaluated in the same way and with the same timing to allow easy merger and analysis, and have it incorporated into one budget as funds seek to achieve the same objectives. This will make the responsibility of accounting to the people of Uganda an easier task for the Treasury every year.

Use Uganda’s computer services to coordinate the linking of all the cost, revenue, profit and investment centres, and improve the financial management information system of the Treasury or Ministry.

The Ministry should be left with the full responsibility to answer to Parliament for all the decisions and actions in the responsibility centres, assisted by the officers it has appointed to ensure that the objectives achieved are easily verified and defended in Parliament.

Accounting systems in the public sector (a major ingredient in a PFMS)

An accounting system is a subsystem of a public financial management control system. It focuses on errors and irregularities and is operated on behalf of the Government by accountants in the Treasury’s Office of Accounts.

An accounting system is a means of controlling public financial resources during the transformation into services. It is specifically designed to facilitate planning for implemen-tation of strategies, to motivate the Government to achieve the country’s goals and to develop information for the evaluation of performance.

An accounting system also has a structural element because once designed and installed, it remains more or less permanent.

An accounting system is the lifeline of any public financial management control system and its output is used to plan, coordinate and evaluate government activities.

Most information used for financial planning purposes including stock of government financial resources (current and fixed assets) and internal diary of government activities is delivered by an accounting system.

Information to coordinate detailed approved budgets, accounting standards instructions, procedural authority and responsibilities comes from an accounting system.

Information to evaluate government performance, performance measurement results at the Treasury, and ministry, departmental and comparative figures (actual vs. standard) are also delivered by an accounting system.

Therefore an accounting system is a structural element that provides an information flow to the Government, donors and people, and is relevant to decision-making. However, this information delivery system does not mean human action is not required to effect control in the Government.

The necessary human action is guaranteed by an appropriate incentive subsystem (i.e. performance measures).

Because an accounting system is a subsystem of control within a control structure, there are control processes which are carried out in three steps: programming, budget preparation and analysis and appraisal of performance. This entails three activities:

- Preparation and analysis of new computer/manual accounting programmes, instructions/activities;
- Analysis of ongoing accounting processes to improve their effectiveness and efficiency (Treasury inspection and internal audit); and
- Coordination of accounting processes in all government establishments.

Programming - This entails the preparation, analysis and installation of agreed computer/manual accounting programmes of control receipts and payments of public moneys.

Budget preparation - This generally involves financial forecasting (projections) in monetary terms usually for a one-year period. The process suggests government commitment, review and approval of the forecast including the periodic variance analysis and reporting by the Cabinet and later to Parliament.

These activities are administered by two departments, the Budget Department to manage the budgetary process and the Accounts Department to manage the accounting process with duties well specified.

Analysing and reporting financial performance - An accounting system should be able to reveal variances by major casual factors and government units responsible, give annual forecasts and explanations of reasons for variances, the action being taken to correct problems and the time required for it to be effective. An accounting system that produces reports without analysing causes and impact on efficiency has limited usefulness.

Evaluation of the accounting system in Uganda - In most Governments, most backgrounds to the budgets lack actual comparison with previous financial performance.

Although there are a number of computer units in most government offices, they are not used to carry out accounting processes according to general accounting principles.

Double-entry bookkeeping is applicable in principle and can be of great help in processing accounting reports for government decision-making, but it is not used for lack of vision on the need for effective accounting processes and provision of financial support to the Treasury's Office of Accounts.

Solutions

Government/donors must recognize the importance of the accounting process in public finance management control systems: to control and encourage people to behave in conformity with the wishes of the owners of the public entity. Books of accounts must be kept and audited, and explanations given for any variance.