East AFRITAC Regional PFM Workshop

IFMIS Effectiveness: Strengthening PFM operational support and control

Workshop Agenda

18th to 21st October, 2016

Ramada Resort, Dar es Salaam

Time	Session	Resource persons
October 18, 2016, Tuesday		
8:30 – 9:00 am	**Registration of participants**	East AFRITAC
9:00 – 9:15 am	**Welcome and introduction of participants**	East AFRITAC
9:15 – 9:45 am	**Key note address and opening remarks:** highlighting the importance of maximizing the benefits from a fully effective IFMIS.	Hervé Joly
9:45 – 10:30 am	**Photo Session and coffee break**	
10:30 – 11:15am	**Session 1: Setting the workshop scene**: Overview of the workshop objectives and organization; and providing an introduction to the main themes of the workshop.	Paul Seeds, PFM Advisor, East AFRITAC
Theme A: IFMIS Support to budgeting planning and preparation, and approval to spend: Overview and context of IFMIS in delivering effective Public Financial Management (PFM). A review of IFMIS configuration and practices in the region for budget preparation and budget releases (warrants or approvals to spend and cash releases).		
11:15 – 12:30pm	**Session 2: An overview of IFMIS:** An overview of IFMIS and its role in supporting Public Financial Management (PFM) and underpinning PFM reforms.	Ali Hashim
12:30 – 2:00 pm	**LUNCH**	
2:00 – 3:00pm	**Session 3: Planning and budgeting in IFMIS:** This session will discuss various aspects of IFMIS coverage and support to the planning and budgeting processes, including warrant release.	Paul Seeds
3:00 – 3:30 pm	**Coffee break**	
3.30 – 4.15 pm	**Session 4: Systems for Local Government:** Use of same or different IFMIS software, specific issues and challenges.	Jean Rurangirwa
4:15 6:00 pm	**Country presentations:** Sharing experiences on effectiveness of IFMIS support to budget planning, preparation and warrant release.	Eritrea, Ethiopia, Kenya, Malawi, Rwanda, Tanzania, Uganda, South Sudan, Zanzibar
6:30 – 7:30 pm	**Welcome cocktail party**	

October 19, 2016, Wednesday		
Theme B: IFMIS Support to Budget Execution and Control: Overview of IFMIS support to cash forecasting, cash management, commitment control, expenditure and payment management, and the control environment.		
9:00 - 10:30 pm	**Session 5: System support to cash forecasting cash and cash management:** This session will discuss automated support to cash forecasting, and system requirements to support effective management of the Treasury Single Account (TSA).	Søren Langhoff
10:30 –11:00 am	**Coffee break**	
11:00 – 12:30 am	**Session 6: Commitment and expenditure control through IFMIS:** Discussions on effectiveness of commitment and expenditure control through IFMIS, the challenges and what can be done to strengthen control.	Paul Seeds
12:30 – 2:00 pm	**LUNCH**	
Theme C: Reporting and fiscal transparency through IFMIS		
2:00 – 3:00 pm	**Session 7: Presentation of information through executive dashboard:** A presentation of graphical presentations through dashboard systems for presentation of executive information.	Jean Rurangirwa
3:00 - 4:00 pm	**Country presentations:** Discussion on country practices on cash forecasting, cash management, budget execution and control. (From Theme B)	Ethiopia, Kenya, Uganda, Malawi
4:00 – 4:30 pm	**Coffee break**	
4:30 - 5:30 pm	**Country presentations:** Discussion on country practices on cash forecasting, cash management, budget execution and control. (From Theme B)	Eritrea, Rwanda, Tanzania, South Sudan, Zanzibar
October 20, 2016, Thursday		
9:00 – 10:30 am	**Session 8: Financial Reporting through IFMIS:** Discussing reporting for the various different purposes – statutory reporting; PBB execution reporting, including non-financial performance information; recording and presentation of memorandum information (e.g. full balance sheet information).	Søren Langhoff
10:30 –11:00 am	**Coffee break**	

11:00 - 12:30 pm	**Session 9: IFMIS Diagnostic Tool:** This session will discuss a framework designed for reviewing coverage, functionalities, controls and other dimensions in IFMIS.	Ali Hashim
12:30– 2:00 pm	**LUNCH**	
2:00 – 3:00 pm	**Country presentations:** Self-diagnostic exercise on IFMIS using the framework and "health check" list.	Ethiopia, Kenya, Uganda, Malawi
3:00 – 3:30 pm	**Coffee break**	
3:30 – 4:30 pm	**Country presentations:** *Continued*	Tanzania, Rwanda, Eritrea, Zanzibar, South Sudan
October 21, 2016, Friday		
9:00 – 10:15 am	**Session 10: Group discussion:** Enhancing IFMIS functionality, coverage and utilization and strengthening system controls and the surrounding control environment.	All panel of presenters
10:15 –10:45 am	**Coffee break**	
10:45 – 11:15 am	**Wrap up session:** Lessons learnt and way forward	Paul Seeds
11:15 – 12:30 pm	**Workshop evaluation** **Presentation of Certificates and Vote of Thanks** **Workshop Close**	Resource Persons
12:30 -2:00 pm	**LUNCH**	

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Outline: The Broad Picture

- Why IFMIS should lead to better public financial management (PFM)?

- A quick overview of IFMIS-relevant PFM developments in the region

- Why has IFMIS not delivered as much as expected?

- What can be done ?

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IFMIS and PFM Performance: Theory

IFMIS meant to provide more comprehensive, timely, and accurate information on the budget and its execution. It should help improve all aspects of the budget cycle:

- Budgeting (incl. medium term, program based budget)
- Budget execution, including effective release of budget and cash to support implementation of the budget
- Controls, including commitment and expenditure control, and the prevention of payment arrears
- Reporting and auditing.

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IFMIS and PFM Performance: Practice

- Next two slides provide a bird's eye view of PFM progress and latest situation in IFMIS-relevant areas through selected PEFA indicators.
- Very crude yardstick, as PEFA indicators' change and latest score may be affected by other factors than IFMIS…
- …but this aggregate approach still provide a broad sense of whether IFMIS has delivered its full potential.

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PFM developments in the region (I)

Change in PEFA scores in the last two assessments for East Afritac countries

		ETH 2010/14	KEN 2008/12	MLW 2008/11	RWA 2010/15	TZA 2010/13	UGA 2008/12	ZBR 2010
	Credibility of the budget							
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PI 3	Aggregate revenue outturn compared to original approved budget	B	B	D	A	C	D	B
PI 4	Stock and monitoring of expenditure payment arrears	A	C+	NS	B+	C	C+	B
	Comprehensiveness and transparency							
PI 7	Extent of unreported government operations	NR	D	NS	B+	D+	D+	D+
PI 8	Transparency of inter-governmental fiscal relations	B	B	B	A	C+	D+	NU
PI 10	Public access to key fiscal information	C	B	C	B	B	B	C
	Policy-based budgeting							
PI 12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	B	C+	C+	B+	C	C+	C+

PFM developments in the region (II)

Change in PEFA scores in the last two assessments for East Afritac countries

		ETH 2010/14	KEN 2008/12	MLW 2008/11	RWA 2010/15	TZA 2010/13	UGA 2008/12	ZBR 2010
	Predictability and control in budget execution							
PI 16	Predictability in the availability of funds for commitment of expenditure	C+	B	B	B+	C	C+	C+
PI 17	Recording and management of cash balances, debt and guarantees	B	B	A	A	C	B	C+
PI 18	Effectiveness of payroll controls	B+	B+	B+	B+	B	D+	D+
PI 19	Competition, value for money and controls in procurement	C+	C+	D+	B+	NR	D+	C
PI 20	Effectiveness of internal controls for non-salary expenditures	C+	C	C+	B+	D+	C	D+
PI 21	Effectiveness of internal audit	B+	C+	D+	C+	D+	C+	D+
	Accounting, Recording and Reporting							
PI 22	Timeliness and regularity of accounts reconciliation	A	D	D	A	D+	C+	B+
PI 23	Availability of information on resources received by service delivery units	NA	D	D	C	C	B	D
PI 24	Quality and timeliness of in-year budget reports	C+	C+	C+	D+	C+	C+	C+
PI 25	Quality and timeliness of annual financial statements	C+	D+	C+	C+	B+	C+	C+

Why has IFMIS not fully delivered ? (I)

- Previous slides show a picture of limited progress (or none in some areas), suggesting IFMIS has not brought all expected benefits.

- Range of issues might explain this. Some of them listed below.

- Slow or incomplete rollout of IFMIS:
  - Not yet implemented IFMIS – in process of planning for IFMIS: Eritrea
  - Slow pace of rollout after initial pilot: Ethiopia

- Unfortunate events:
  - Malawi: software company went out of business, requiring a system change

Why has IFMIS not fully delivered ? (II)

- IFMIS functionalities not used/low compliance
  - Software often includes modules that may not be used (e.g., public investment, procurement)
  - Nearly all countries continue collating financial information outside IFMIS for financial reporting
  - Reconciliation still often undertaken manually because IFMIS poorly configured or data quality low

- Malfeasance
  - Kenya: recent press reports on National Youth Service (inadequate controls to prevent collusion)
  - Malawi: "cashgate" scandal

- Not just the software itself but the surrounding control environment – compliance/enforcement is key.

What should be done ?

- The objective of the workshop is to discuss these issues and ways to address them

- How to use IFMIS to its full potential? How to address some of the issues faced in recent years?

- Share experiences and learn form each, with guidance provided by experts.

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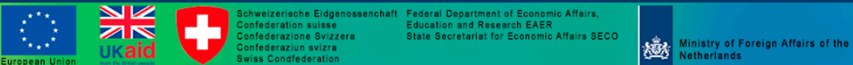Session 1: IFMIS - Setting the scene

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Session 1 Outline: Setting the Scene

- Workshop Objectives

- Background

- IFMIS Software in the Region

- Introduction to the Workshop Themes

- Country Presentations

- Workshop Expectations

- Welcome Cocktail Party

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Workshop Objectives

- Look at what we can do better in IFMIS to improve PFM Performance

- Share experiences and learn form each other how we improve system support to PFM

- Identify the challenges and potential solutions in all PFM aspects, from:
  - Budgeting (medium term, program based budget)
  - Budget Execution, including effective release of budget and cash to support implementation of the budget
  - Controls, including commitment and expenditure control, and the prevention of payment arrears
  - Full utilization and coverage of IFMIS for all financial transactions

- How can we assess where we are and where we are going in IFMIS (diagnostic tool)

- How can we maximize the benefit from the investment in IFMIS?

Background

- Where did we come from?

- Transactions undertaken manually

- Data capture: Information captured ex-post often into standalone mainframe systems

- Poor quality data: inaccurate, incomplete and untimely

- Voluminous reports (output) – limited variety and flexibility

- Transaction listings and detailed balance reports

- Limited soft copy data for further analysis

Background

- Advent of PCs – used to complement the mainframe systems

- Often parallel systems and overlap

- Used to manage specific functions

  - Budgetary commitment control against budget

  - More flexible and timely reporting

  - Cash forecasting

  - Budget formulation

- Past 2 decades governments turning to use of real time processing – On Line Transaction Processing (OLTP) systems

- Different countries moving at different paces…..

Adoption of IFMIS

- Integrated Financial Management Information Systems (IFMIS)

- Integrated systems covering various aspects of the broader PFM framework

- Different levels of coverage and integration of the core software

- Interfaces with (or shares data with) other non-core systems: Debt Management; Payroll; Planning; Projects; Revenue Authority Systems; Procurement Systems; Central Bank's Systems

- Majority based on Commercial Off The Shelf (COTS) packages

- Some based on bespoke development

IFMIS Status in the Region

Country	Core Treasury Financials	Budget System
Eritrea	Stand-alone systems	Stand-alone systems
Ethiopia	Oracle EBS (migrating from IBEX)	Oracle Public Sector Budget
Kenya	Oracle EBS	Hyperion
Malawi	Epicor (plan to replace)	Active Planner
Rwanda	Smart IFMIS (bespoke solution)	Smart IFMIS
South Sudan	Free Balance	Free Balance
Tanzania	Epicor	SBAS + Active Planner
Uganda	Oracle EBS	Output Budgeting Tool (bespoke)
Zanzibar	Epicor	Isidore (recent replacement)

IFMIS and Other Associated System Software

- Trade off decisions on software:
  - COTS or bespoke
  - IFMIS Module or best of breed

- Different software for Local Governments: Serenic Navigator in Malawi; Tier 2 Dynamics in Uganda; Others - bespoke

- Other Software:
  - eViews (MTFF) macro-fiscal planning
  - CS-DRMS, DMFAS, Payroll

- Interfacing? Integration or Information Sharing? Degree of complexity?

Supporting Improved PFM

- Automated, operational support to real-time transaction processing

- Many benefits realized:

  - Budget appropriation enacted in timely manner

  - Annual Financial Statements on time

  - Flexible in-year reporting

  - Improved analysis via multi-dimensional classification (CoA)

  - Support to PFM Reforms: Medium-Term Orientation of Budgeting; Program Based Budgeting; TSA; Implementation of Standards, e.g. IPSAS

  - Some improvements in expenditure controls

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Scope for Further Improvements

- Despite some successes – few IFMIS deliver fully against envisaged benefits:

- Challenges in monitoring and reporting PBB implementation, including output/outcome performance

- IFMIS not a comprehensive repository of all financial operations so reporting done outside of IFMIS

- Bank reconciliation undertaken manually outside IFMIS

- Limited use of IFMIS or information from IFMIS in cash forecasting and management

- Continued occurrence of malfeasance – inadequate controls within IFMIS and surrounding environment

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Workshop Theme A

- Overview of IFMIS and Support to planning, budget approval:
  - An overview of IFMIS and its support to effective PFM
  - Support to planning, budgeting, and budget fund releases (warrants)
  - Better informed consistent budgets, predictability of funding for effective budget execution
  - Warrants (or approvals to spend) – How can we get the budget and cash funding to implementing agencies at the right time in the right amount?
  - Local Government Systems – looking at different requirements; different software; cost/benefit implications of full IFMIS system; other logistical constraints of full IFMIS licenses and modules

- Country presentations: Sharing experiences on IFMIS support to planning, budget preparation and warrant releases

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Workshop Theme B

- Support to budget execution and control
  - Overview of functionality supporting cash forecasting, budget and cash fund releases, commitment control and expenditure and payment management:
  - Cash forecasting and management, and the TSA
  - Commitment and expenditure control, and the management (prevention, identification and reporting) of payment arrears
  - (Majority of countries in region experiencing payment arrears due to ineffective budgetary control

- Country presentations: Experiences and lessons learned in budget execution, cash management and budgetary controls

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Workshop Theme C

- Reporting and fiscal transparency through IFMIS:
    - Annual financial statements, PBB reporting, budget execution reports
    - integrating financial and non-financial reporting,
    - Balance sheet reporting in cash based accounting
    - How to make IFMIS comprehensive to cover all financial transactions fully
- Graphical presentation of information:
    - use of dashboards for Executive Information
    - Interactive web reporting with drill down to details

IFMIS Diagnostic Tool

- Active participation – real world real life experiences and lesson learning
- Good opportunity for interactive discussion and learning from counterparts in other countries
- Newly developed tool – a framework for analyzing what we are doing well and what is not going so well
- Group exercise to undertake a self-diagnostic

Workshop Expectations

- Our expectations:
  - Active participation in sessions (2 way experience)
  - Participants can gain an understanding of the challenges and solutions to persistent problems
  - Take back your experiences and **SHARE** with your peers and colleagues to implement improvements
- Your expectations:
  - What do you expect to achieve from this session?
  - How will you take these experiences back and implement at your workplace?

  Write down on a piece of paper 2 things you expect to achieve from this workshop

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Welcome Cocktail

- Drinks and snacks

- Opportunity to meet counterparts from other countries

- Opportunity to discuss informally

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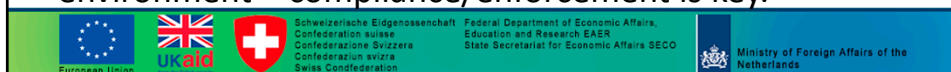
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PI 25	Quality and timeliness of annual financial statements	C+	D+	C+	C+	B+	C+	C+

Why has IFMIS not fully delivered ? (I)

- Previous slides show a picture of limited progress (or none in some areas), suggesting IFMIS has not brought all expected benefits.

- Range of issues might explain this. Some of them listed below.

- Slow or incomplete rollout of IFMIS:
  - Not yet implemented IFMIS – in process of planning for IFMIS: Eritrea
  - Slow pace of rollout after initial pilot: Ethiopia

- Unfortunate events:
  - Malawi: software company went out of business, requiring a system change

Why has IFMIS not fully delivered ? (II)

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- Malfeasance
    - o Kenya: recent press reports on National Youth Service (inadequate controls to prevent collusion)
    - o Malawi: "cashgate" scandal
- Not just the software itself but the surrounding control environment – compliance/enforcement is key.

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What should be done ?

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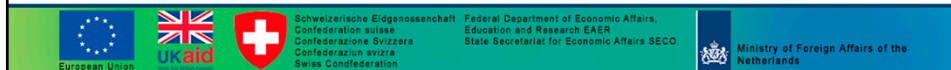
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- Workshop Expectations

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Workshop Objectives

- Look at what we can do better in IFMIS to improve PFM Performance
- Share experiences and learn form each other how we improve system support to PFM
- Identify the challenges and potential solutions in all PFM aspects, from:
  - Budgeting (medium term, program based budget)
  - Budget Execution, including effective release of budget and cash to support implementation of the budget
  - Controls, including commitment and expenditure control, and the prevention of payment arrears
  - Full utilization and coverage of IFMIS for all financial transactions
- How can we assess where we are and where we are going in IFMIS (diagnostic tool)
- How can we maximize the benefit from the investment in IFMIS?

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Background

- Where did we come from?

- Transactions undertaken manually

- Data capture: Information captured ex-post often into standalone mainframe systems

- Poor quality data: inaccurate, incomplete and untimely

- Voluminous reports (output) – limited variety and flexibility

- Transaction listings and detailed balance reports

- Limited soft copy data for further analysis

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Background

- Advent of PCs – used to complement the mainframe systems
- Often parallel systems and overlap
- Used to manage specific functions
  - Budgetary commitment control against budget
  - More flexible and timely reporting
  - Cash forecasting
  - Budget formulation
- Past 2 decades governments turning to use of real time processing – On Line Transaction Processing (OLTP) systems
- Different countries moving at different paces…..

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Adoption of IFMIS

- Integrated Financial Management Information Systems (IFMIS)

- Integrated systems covering various aspects of the broader PFM framework

- Different levels of coverage and integration of the core software

- Interfaces with (or shares data with) other non-core systems: Debt Management; Payroll; Planning; Projects; Revenue Authority Systems; Procurement Systems; Central Bank's Systems

- Majority based on Commercial Off The Shelf (COTS) packages

- Some based on bespoke development

IFMIS Status in the Region

Country	Core Treasury Financials	Budget System
Eritrea	Stand-alone systems	Stand-alone systems
Ethiopia	Oracle EBS (migrating from IBEX)	Oracle Public Sector Budget
Kenya	Oracle EBS	Hyperion
Malawi	Epicor (plan to replace)	Active Planner
Rwanda	Smart IFMIS (bespoke solution)	Smart IFMIS
South Sudan	Free Balance	Free Balance
Tanzania	Epicor	SBAS + Active Planner
Uganda	Oracle EBS	Output Budgeting Tool (bespoke)
Zanzibar	Epicor	Isidore (recent replacement)

IFMIS and Other Associated System Software

- Trade off decisions on software:
  - COTS or bespoke
  - IFMIS Module or best of breed

- Different software for Local Governments: Serenic Navigator in Malawi; Tier 2 Dynamics in Uganda; Others - bespoke

- Other Software:
  - eViews (MTFF) macro-fiscal planning
  - CS-DRMS, DMFAS, Payroll

- Interfacing? Integration or Information Sharing? Degree of complexity?

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Supporting Improved PFM

- Automated, operational support to real-time transaction processing

- Many benefits realized:
  - Budget appropriation enacted in timely manner

  - Annual Financial Statements on time

  - Flexible in-year reporting

  - Improved analysis via multi-dimensional classification (CoA)

  - Support to PFM Reforms: Medium-Term Orientation of Budgeting; Program Based Budgeting; TSA; Implementation of Standards, e.g. IPSAS

  - Some improvements in expenditure controls

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Scope for Further Improvements

- Despite some successes – few IFMIS deliver fully against envisaged benefits:

- Challenges in monitoring and reporting PBB implementation, including output/outcome performance

- IFMIS not a comprehensive repository of all financial operations so reporting done outside of IFMIS

- Bank reconciliation undertaken manually outside IFMIS

- Limited use of IFMIS or information from IFMIS in cash forecasting and management

- Continued occurrence of malfeasance – inadequate controls within IFMIS and surrounding environment

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Workshop Theme A

- Overview of IFMIS and Support to planning, budget approval:
  - An overview of IFMIS and its support to effective PFM
  - Support to planning, budgeting, and budget fund releases (warrants)
  - Better informed consistent budgets, predictability of funding for effective budget execution
  - Warrants (or approvals to spend) – How can we get the budget and cash funding to implementing agencies at the right time in the right amount?
  - Local Government Systems – looking at different requirements; different software; cost/benefit implications of full IFMIS system; other logistical constraints of full IFMIS licenses and modules

- Country presentations: Sharing experiences on IFMIS support to planning, budget preparation and warrant releases

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Workshop Theme B

- Support to budget execution and control

  - Overview of functionality supporting cash forecasting, budget and cash fund releases, commitment control and expenditure and payment management:

  - Cash forecasting and management, and the TSA

  - Commitment and expenditure control, and the management (prevention, identification and reporting) of payment arrears

  - (Majority of countries in region experiencing payment arrears due to ineffective budgetary control

- Country presentations: Experiences and lessons learned in budget execution, cash management and budgetary controls

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Workshop Theme C

- Reporting and fiscal transparency through IFMIS:

  - Annual financial statements, PBB reporting, budget execution reports

  - integrating financial and non-financial reporting,

  - Balance sheet reporting in cash based accounting

  - How to make IFMIS comprehensive to cover all financial transactions fully

- Graphical presentation of information:

  - use of dashboards for Executive Information

  - Interactive web reporting with drill down to details

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IFMIS Diagnostic Tool

- Active participation – real world real life experiences and lesson learning

- Good opportunity for interactive discussion and learning from counterparts in other countries

- Newly developed tool – a framework for analyzing what we are doing well and what is not going so well

- Group exercise to undertake a self-diagnostic

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Workshop Expectations

- Our expectations:
  - Active participation in sessions (2 way experience)
  - Participants can gain an understanding of the challenges and solutions to persistent problems
  - Take back your experiences and **SHARE** with your peers and colleagues to implement improvements
- Your expectations:
  - What do you expect to achieve from this session?
  - How will you take these experiences back and implement at your workplace?

  Write down on a piece of paper 2 things you expect to achieve from this workshop

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Welcome Cocktail

- Drinks and snacks

- Opportunity to meet counterparts from other countries

- Opportunity to discuss informally

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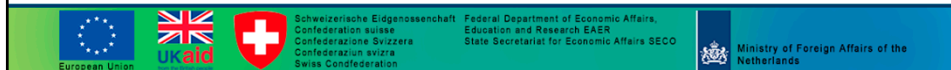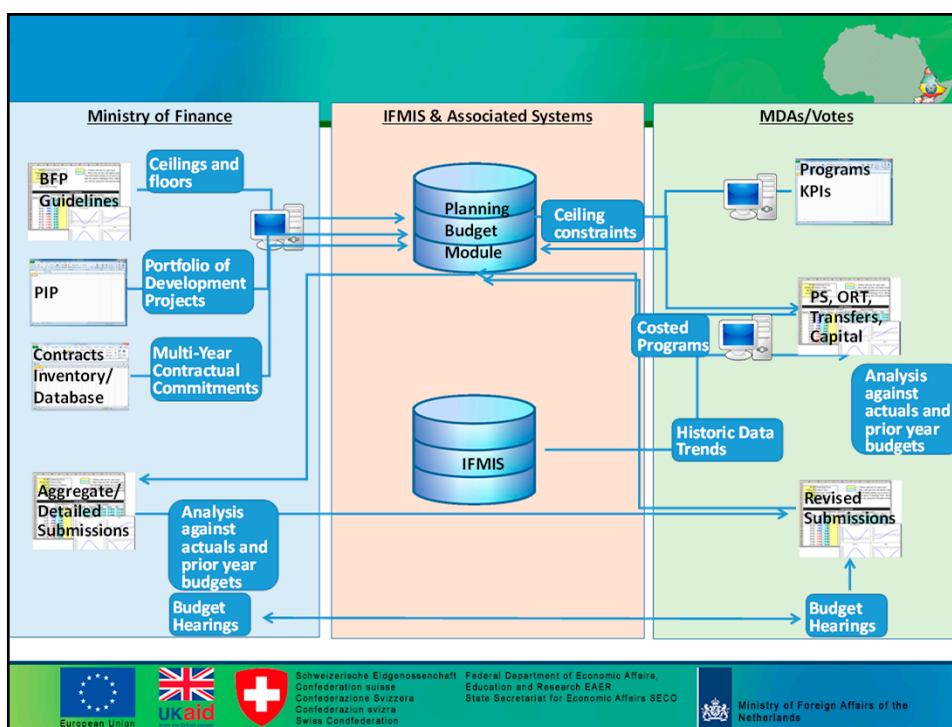European Union UKaid Swiss Condfederation Schweizerische Eidgenossenschaft / Confederation suisse / Confederazione Svizzera / Confederaziun svizra Federal Department of Economic Affairs, Education and Research EAER / State Secretariat for Economic Affairs SECO Ministry of Foreign Affairs of the Netherlands

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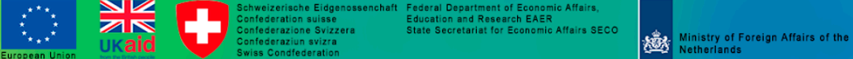
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Overview of Session 3

- Planning Framework

- Budget Preparation in IFMIS

- Budget Release Process

- Critical Success Factors for Effective Budget Systems

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Planning Framework

Overview of Planning Framework

- Many elements precede the formal budget formulation and preparation process

- Establishing the policies:

  - Fiscal Aggregates

  - Sectoral Priorities

- Determining the fiscal envelope over the medium term

- Agreeing portfolio of investment projects for economic development

Public Investment Planning

- Often bespoke systems

- Support the preparation of the Public Investment Plan (PIP)

- Sets out Government's sectoral priorities for the economy as a whole - Broader than Government alone

- Often 5 year timeframes, as opposed to 3 year MTEF

- Major projects usually have to be in PIP to be included in medium term budget

- Often ignore affordability

- Traditionally, linkages with budget not as strong as could be

Managing Investment Projects

- Bespoke Databases of Projects – outside IFMIS, although many packages have project and contracts management modules

- Investment decisions undertaken outside of systems – need for stronger cost benefit analysis capabilities within the systems

- Need for modelling capabilities, determining impact of different planned investment portfolios

- Need mechanism for managing Public Private Partnerships

- Need for better information sharing between, PIP systems, macro-fiscal systems and IFMIS

Macro-Fiscal Planning

- Modelling software, e.g. eViews - parameter based – IFMIS transaction processing systems not best suited to this

- However better use could be made of historic information in IFMIS – revenue outturns, historic implementation rates, e.g. projects, etc.

- Scenario modelling, looking at impact on economy and on government revenues of inflation, GDP growth, exchange rates, interest rates, employment figures, investment activity, etc.

- Forecasting the fiscal/sectoral envelopes over the (usually) 3 year medium term

- Planning the fiscal aggregates, including borrowing requirements over the medium term

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Budget Preparation in IFMIS

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Outline of Budget Formulation Process

- Based on policies and fiscal framework (Budget Framework Paper or Budget Guidelines)

- Multi-year, Medium Term Fiscal Framework (MTFF) – fiscal envelope and fiscal aggregates

- Setting resource ceilings for aggregate current expenditure and floors for aggregate development expenditure

- Setting ceilings for Votes/Programs

- MDA prioritization of activities and costing of existing and new programs

- Iterative budget submission and approval process to arrive at credible MDA and aggregate budgets

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Budget Preparation Systems

- Budget preparation functionality differs from transaction processing Treasury systems

- By their nature – planning and modelling

- Different countries – different options

  - Part of IFMIS suite of modules, e.g. Public Sector Budgeting (Oracle EBS, FreeBalance, SAP), Active Planner (Epicor)

  - Continued use of legacy budget software, SBAS and IBEX, etc.

  - Third party (best of breed software), e.g. Hyperion (owned by Oracle) and Isidore Planning and Budgeting Software

- Critical factor where different systems used from IFMIS – harmonization of Chart of Accounts segment values

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Role of IFMIS in Budget Formulation Process

- Formulation in IFMIS Budget Module or related software

- Three (3) year medium term orientation

- GL updated with Annual Budget at detailed level – exported from Budget Module

- GL maintaining multiple Budgets: Original; Revised; Funding Budget

- Better use historic information in IFMIS for trend analysis, seasonality, deviations, multi-year contractual commitments

- Linking information from all IFMIS modules with budget software/ module – monitor budget implementation from **real** actuals not releases as a proxy for implementation

- But need to ensure full coverage in IFMIS

MDA Budget Formulation

- Most countries now started medium-term, program based budgeting

- Ceilings and floors entered in system by Vote, Program, Other – system advises where budget submission exceeds

- Plan the targets for the KPIs for the ongoing Programs

- Review priorities and create new Programs with KPIs in the system, as appropriate

- Cost the Programs (to discuss further)

- Use historic data to guide formulation and ensure figures are reasonable

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Iterative MDA Budget Submissions

- Iterative process of Budget Submissions (Budget Hearings), feedback from MOF, requiring revisions to Budget Submissions

- Analysis by MOF (Budget Department) challenging submissions and figures contained within, based on historic data from IFMIS and harmonized costing across MDAs via use of standard costs for certain Budget Items (can be set within Budget Module)

- Analysis against outer-lying years in previous years' MTEFs, e.g. current BY to previous year's BY+1: consistency over the medium term

- Validation that all multi-year commitments are accommodated accordingly – contracts management module or contracts inventory – this is an area of general weakness and needs tighter control in the MTEF

- Budget Module maintaining history of budget submissions (freeze budget versions) for informing future budget cycles

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Chart of Accounts

- Ideally shared master-tables between IFMIS and budget module

- Or synchronized so updates in one module are reflected in others

- Multi-dimensional chart of accounts:

- Source of Funds; Organizational; Economic Item; Functional; Program

- It is not just enough to be able to Budget at the fully detailed level, it must be possible to allocate actual costs at the detailed level, e.g. fully costed programs and sub-programs

- Limited point in budgeting (say) activity level, if full costs cannot be assigned to that level

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Non-Financial Information

- Some systems – set up non-financial information as part of Chart of Accounts

- But best to set up the non-financial (statistical) "accounts" to link to program/sub-program structure

- Just as budgets, warrants actuals all share the common chart of accounts structures – so should the KPIs

- Setting up units of measure, targets and actuals for KPIs in the system

- Few countries use the IFMIS (per se) for recording and reporting non-financial information - where strengths of planning type software comes in

- Need to be able to capture actuals, (say) quarterly

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Program Setup in IFMIS COA

- Most countries – started on road to PBB – and looking at injecting some dimension of (service delivery) performance into allocation and utilization of financial resources

- Program/Sub-Program information setup within segment values, including objectives (purpose) and the Key Performance Indicators (KPIs)

- As part of Program setup – can add identifier of Identifying ongoing and new programs – useful to present budget showing new programs separately from ongoing programs

- Can map function (COFOG) to Program through COA, or setup as validation rules

- Can setup other identifiers for analysis and reporting, e.g. priority ratings for economic development, pro-poor spending, etc.

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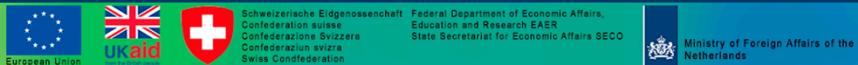
Program Costing

- Link to work and procurement plans and recognize ongoing, multi-year contractual commitments

- Cost the Programs:
  - Personnel Costs
  - ORT
  - Capital expenditures/Contracts -ensure all ongoing (multi-year) contractual commitments incorporated
  - Transfers

- This is all undertaken through the budget module, which checks to ensure all the ceilings and floors are met

- Use of standard pricing for common budget items ensuring consistency across all MDAs

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Program Costing and Design

- How does the system support Program format in your country?

- Can we allocate all **actual** costs to Program and Sub-Program?

- How do we manage centrally procured/purchased items?

- How do we address issue of shared costs?

- How do we reallocate, apportion, or absorb costs to derive full program costs?

- How does IFMIS assist with this?

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Budget Release (Warrant) Process

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Outline of Budget Release Process

- Profiling the budget by period (month) based on Annual Procurement Plans and Annual Cash Plan

- Quarterly commitment forecasts backed by monthly cash forecasts (to be discussed in detail in later session)

- Regular updating the forecasts based on analysis of information

- Issuing warrant (various terminologies: commitment ceiling; budget release, authority to incur expenditure, etc.)

- Recognize timing differences between making the commitment and the need for cash for settlement
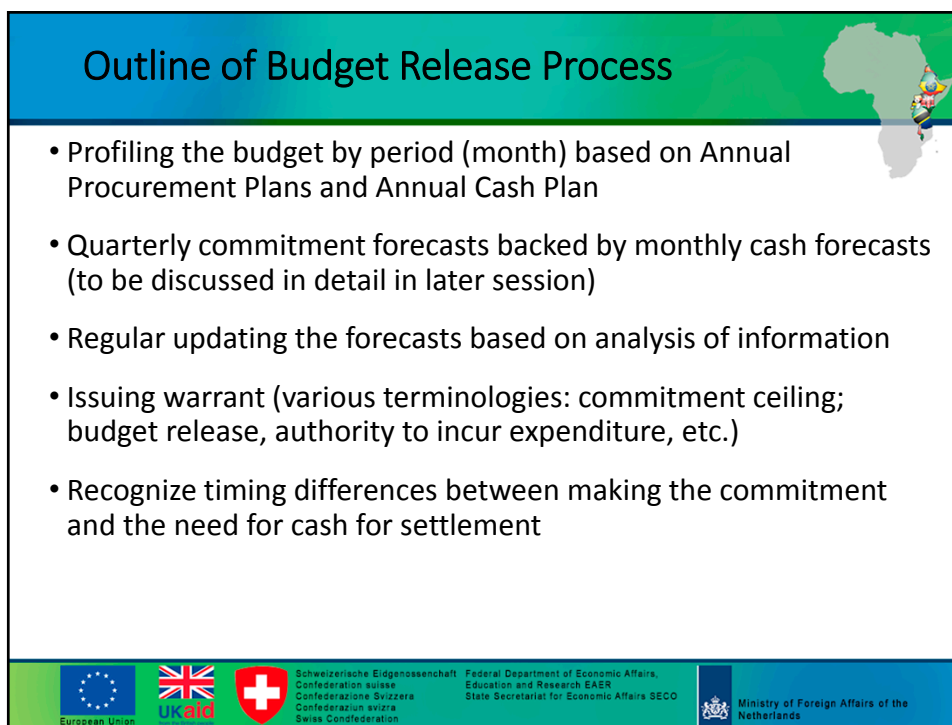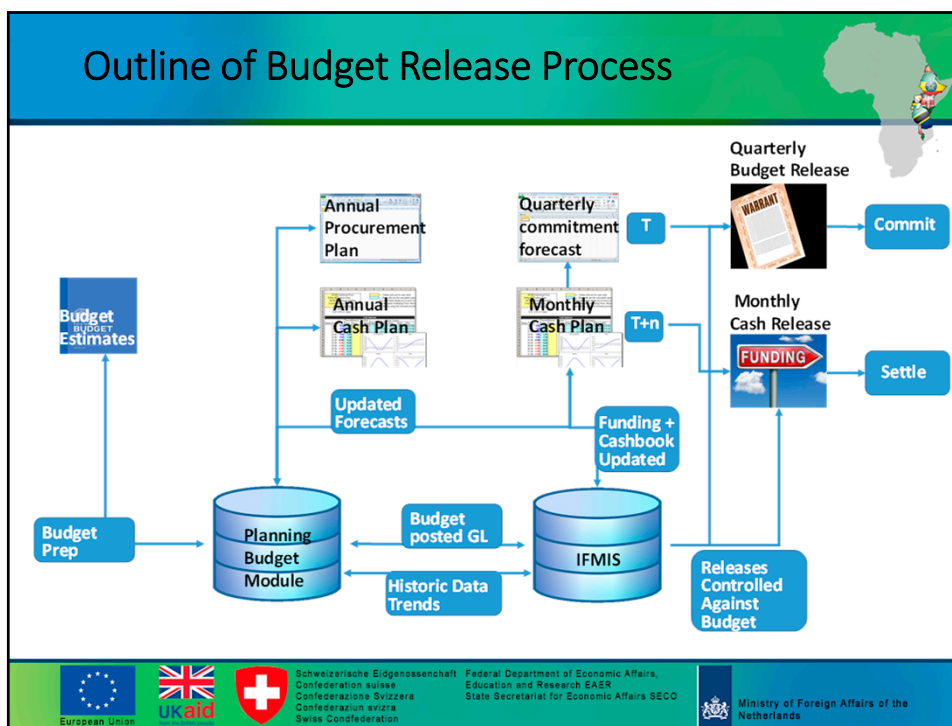
Profiling the Budget and Forecasting

- Bring in work plans, procurement plans, recruitment plans, and annual cash flow plans
- Turning procurement and spending plans into reliable commitment forecasts and monthly cash plans
- Many expenditure items are smooth and predictable month by month or seasonality can be confidently predicted from historic trends
- Other items may be "lumpy" but can be timing can be predicted: Public Debt; Subscriptions; Transfers, etc. Contracts should have payments schedules, which can be captured via IFMIS and updated according to current events
- Budget can be profiled in system during formulation
- Important to utilize historic/trend/seasonality information in IFMIS

Virements and Revised Budget

- Using IFMIS information to identify **real** savings
- Virements processed as funding budget transactions in IFMIS to facilitate spending and utilization of those funds
- Feed back into budget system for formulation of revised budget
- Controls in IFMIS to protect certain expenditure items against virements
- Virements subjected to budgetary control – cannot "overdraw" budget funds
- Revised Budget formulated in budget module and updated in IFMIS GL
- Release process for Supplementary Budget items similar to regular release process
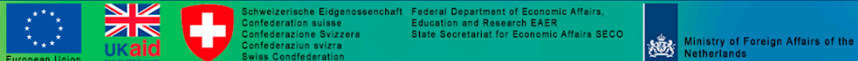
CSFs for Effective Budget Systems

Critical Success Factors (CSFs)

- Take note of country specific PFM reform agenda in the configuration – MTEF, PBB, etc.

- Be clear (once budget is formulated) how it will be monitored and evaluated, and develop into configuration

- Design methodologies for recoding full actual costs at the level being monitored

- Harness repository of knowledge from prior years' MTEF and PPP Budget Formulation

- Analytical capabilities for continual improvement in quality, credibility and consistency in medium term budgets

- Leverage the benefits of using database tools – linking financial and non-financial data from multiple modules and databases

- Avoid overelaboration in the defining of KPIs – not too detailed (low) level – SMART KPIs

Critical Success Factors (CSFs)

- System enables timely capture of actual performance against KPIs – Quarterly probably adequate

- System supports rigor in analyzing and challenging budget submission

- System ensures all multi-year commitments incorporated into MTEF and Annual Budget

- System supports analysis of Program outcomes enabling decisions on Program portfolios – restructuring, scaling-up/down, termination, new Programs, etc.

- Reliable commitment forecasts, enabling budget release of adequate funds at the right time

Discussions and Feedback from Participants?

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Session 4: Systems for Local Government

Jean de Dieu Rurangirwa

October 19, 2016
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- Some comments from experience
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Introduction

- There is generally a broad agreement that computerization of government financial management systems (IFMIS) can significantly improve governance by providing real-time information that managers can use to administer programs effectively, formulate budgets and manage resources.

- Such systems normally characterized by extensive financial controls not only can they help governments to gain effective control over their finances but can also enhance transparency and accountability, reducing political discretion and acting as a deterrent to corruption and fraud.

Why IFMIS at all levels of LG?

- Information is the life blood of budgetary, resource allocation and financial management processes in government systems
- Integrated Financial management information systems (IFMIS) provide decision makers and public sector managers with a set of tools to support :
  - Controlling aggregate spending and the deficit;
  - Strategic prioritization of expenditure across policies, programs and projects for improving efficiency and accountability ;
  - Better use of budgeted resources, i.e., to achieve outcomes and produce outputs at the lowest possible cost
- Manual systems are therefore not an option any more for any level of a local government entity including the lowest service delivery units

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IFMIS role in upgrading PFM functions in LG

- IFMIS **not** a solution to PFM systemic failures in LGs
  - E.g. cannot resolve unrealistic budgets, weak fiscal management, inefficient use of resources, corruption, etc.
- IFMIS **can** be used a basis for complete PFM reforms in LGs
  - But must be recognised as such
- IFMIS primarily a tool to upgrade systems that are:
  - Sound but inadequate/limited

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What is a good IFMIS for LGs?

A good IFMIS for local governments must have the ability to:
- Provide information for national budgeting, analysis and government-wide reporting
- Allow a central agency to collect accurate, timely, complete, reliable, consistent information
- Provide government with adequate management reporting – especially exception areas which attention / corrective action
- Support government-wide and agency policy decisions
- Support budget preparation and execution including facilitating releases and/or direct payments by the Treasury.
- Facilitate financial statement preparation including consolidated accounts.
- Provide complete audit trail to facilitate audits; Inter-entity transactions between all the general government entities.

LG IFMIS acquisition issues

- What to acquire/implement
  - What to include and what to leave out
- Same or different software as central government
  - Single or separate acquisition/development
- Bespoke or package software
  - With open technologies, main issue may be cost & sustainability considerations
- Acquisition approach
  - Funding
  - Acquisition stages

Implementation at different levels of LG

- IFMIS could potentially embrace whole of architecture at all levels (Regional, districts, sub-districts, service delivery units)
- Wonderful vision of a full system
- **BUT** for local governments
  - Would be unacceptably high risk and cost, take a long time to implement
- Best to focus initially on core PFM needs of each level of the LG (E.g a billing functionality is normally critical for some of the service delivery units)
  - Only add other features/functionalities if essential
  - Acquire/design a system that can be extended to cover all other financial management needs
  - **Keep it simple**
- **Essential** to develop clear vision of IFMIS for the LGs at an early stage

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Same or Different software as Central Govt

Same software	Different software
Procurement easier with same system	"Reinventing the wheel", more expensive, and higher risk of implementation failure/problems from a country viewpoint
Facilitates preparation of government wide financial information including budgets and consolidated accounts	Interfaces needed to report on all daily financial transactions, have consolidated results for decision support, performance monitoring and web publishing
Data entered once, used many times across all entities e.g Direct payments by the Treasury on behalf of the LGs.	Integrated systems larger, more complex, more expensive, and higher risk of implementation failure/problems
May require heavy customization to meet the financial management needs of the local Government	Meets precise needs of the local government

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Same or Different software as Central Govt

Same software	Different software
Normally Centralised architecture facilitating central processing and storage of financial transactions.	Integrated systems larger, more complex, more expensive, and higher risk of implementation failure/problems
Eases maintenance of application software (including deploying upgrades) and limits high level support across government	More complexity to support and sustain different software across all levels of govt.
Ensures consistency of government wide data, minimises need for reconciliation	Even where systems are interfaced, modules vary and linkages not always work.
Enables "drill down" of government wide financial information to any entity of the general government sector	Unless through interfaces, drill down capabilities restricted to each software.
LGs normally have capacity constraints to cope with same software	Given the capacity levels, second tier systems more acceptable

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Example of IFMIS strategies in LG

- Government of Rwanda IFMIS strategy;
  - All provinces, districts, district hospitals and a pilot health centre using the same system (developed in-house) as central government
  - As an interim solution, the service delivery units (sectors, health centres) using a simplified system (Ms access)
  - Ultimate goal is for all service delivery units to use the same system as other general government entities.
- Woredas in Ethopia – Different software at different levels
- Government of Uganda has the following Tiers for the implementation of IFMIS in LG
  - Tier 1 using Oracle application
  - Tier 2 using MS Dynamics NAV
  - Tier 3 focusing on improving Manual systems

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Some comments from experience

- Same software as central government greatly facilitates national budgeting, Treasury Management and Government-wide financial reporting
- Same system can still designed so that the financial management needs of the different types of government entities. Critical to this, is having uniform chart of accounts across all levels of Government
- Acquisition/development costs for same software relatively lower
- Ease of maintenance of same software
  - Centralised model
  - Central IT team
  - Same data models and security modules
- Open technologies may mean government can design IFMIS systems that can meet the precise requirements of the different financial management institutions of Government including LGs. This option may also be less expensive.

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Some comments from experience

- Keep it simple – core needs first for each level of the LG
- Time spent on detailed planning in advance reduces costs and risks
- Acquisition must be driven by system users and beneficiaries
  - Not by IT staff, vendors, donors or consultants
  - Need for organisation wide support
- Structured project management approaches help
- Need to ensure that sustainability issues are addressed
  - Do not leave until the end of the project

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Critical Success Factors

- Government sponsorship
- Institutional Capacity/Skills/Technical expertise
- Functionality for the different levels of LG
- Project Management
- Investment cost, maintenance costs and Financing
- Change Management
- Guaranteed political & administrative will and commitment.
- IT Architecture
- Financial Records Management
- Regulatory reforms – an enabling law
- Monitoring & Evaluation

Conclusion

- A fully functioning IFMIS can greatly improve governance in the local governments .
- The issue that may present the greatest challenge, is how to implement successful computerised financial management systems in LGs to make them work and realise their full benefits.
- Can be achieved through the choice of the system to use (same or different software as the central government),
- Most adaptable & appropriate tools (equipment & technology),
- Proper planning and project management,
- Above all this, IFMIS requires patience. (The full project life cycle including rollout and deepening of the system may take 7 to 10 years or longer to complete – WB 25 Years Study).

Thank you

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IFMIS: Strengthening PFM operational support and control
Session 5: System support to cash forecasting and cash management

October 19, 2016
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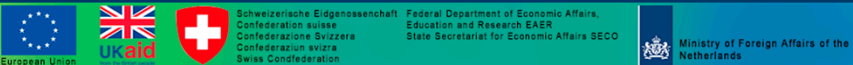
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Topics in this session

This session will discuss automated support to cash management and cash forecasting, and system requirements to support effective management of the Treasury Single Account (TSA)

- Cash Management
- Cash Forecasting
- Treasury Single Account (TSA)
- How can the IFMIS support these functions

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Cash Management (1/10)

Objectives:

- To understand what Government cash management is
- To clarify the pre-requisites for cash management
- To asses the benefits of cash management and its link to overall debt management

Cash management is:

- The strategy and associated processes….
- for managing cost-effectively….
- the government's short-term cash flows and cash balances….
- both within government, and between government and other sectors.

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Differences in Cash Management and Budget Execution (2/10)

- **Cash management is distinct from budget management or budget execution**
  - Budget execution is about ensuring that the budget is managed consistently within agreed financial limits
  - Cash management is about ensuring that the government has the liquidity to execute its payments - requires planning ahead

- **Cutting planned expenditures because of a lack of cash is cash rationing, not cash management.**
  - Effective cash management removes the need for cash rationing

- Cash management domain starts when the money **HITS** the Government account and stops when the money **LEAVES** the Government account.

- Different objectives of cash management and budget execution:

  - Cash management is **FOLLOWING** the actual cash;

  - Budget execution is **ACCOUNTING** for the cash flows.

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Cash Management (3/10)

- **Key issues include:**
- ✓ short term investing and funding
- ✓ Cash flow forecasting
- ✓ bank account structure (number and location)
- ✓ IT framework
- ✓ value dating
- ✓ bank fees / relationship with the banking sector
- ✓ bank accounts netting (domestic and foreign exchange)

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Cash Management objectives (4/10)

Ensuring cash is available to meet commitments

Overriding objective – other objectives must be subject to it

- Economising on cash within Government
  - Cost Saving
  - Reducing risk
- Managing efficiently the government's aggregate short-term cash flow
  - Both cash deficits and cash surpluses
- In such as way as also to benefit
  - Debt management
  - Monetary policy
  - Financial markets (market liquidity and infrastructure)

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Benefits of good Cash Management (5/10)

- ✓ Ensures obligations can be met as they fall due
- ✓ Minimizes idle balances and associated costs
- ✓ Contributes to development of short-term money markets
- ✓ Reduces liquidity impact from Budget deficits/surpluses
- ✓ Separation of cash management from monetary policy
- ✓ Supports debt management
- ✓ Enhanced transparency of government flows.

Some Policy issues related to Cash Management (6/10)
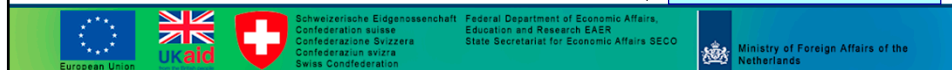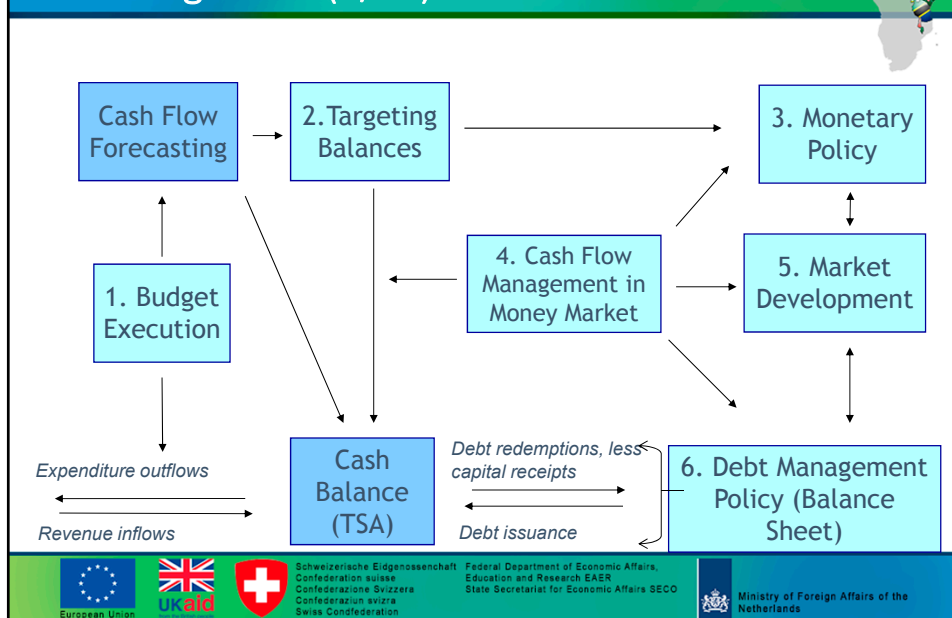
International best practice: 3 requisites for good Cash Management (7/10)

- Treasury Single Account (TSA)

- Cash Forecasting - Treasury Forecasts

- Cash Management Tools (CMT)

  - T-bills
  - Liquidity buffer
  - DMO trading in the money market
  - Cash management T-Bills
  - Commercial paper programme (quasi T-Bills)
  - Promissory notes
  - Repos & reverse repos

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Cash Management links to Debt Management (8/10)

Budget Execution   Commitment → Obligation → Payment

Cash Management   Cash flow Forecasts → Bank Account

Debt Management   Borrowing / Investments

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Further links to Debt Management (9/10)

Differences and similarities:

- **Different horizon**
    - long term vs. short term
    - core funding vs. cash flows smoothing

- **Different instruments,** eg. bonds vs. bills

BUT

- **Common objective**: efficient and cost effective funding

- **Overlap:** debt operations impact cash management and conversely.

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Further links to Debt Management (10/10)

Impact of cash management on cost of debt

1. Enhances predictability of issuance policy: helps disconnect timing of issuance from timing of cash need

2. Reduces interest rate volatility
- Government cash flows impact
    - the money supply: flows between government and banking system
    - the money market: liquidity surplus or cash squeeze
- Volatile liquidity creates volatile interest rates

3. Reduces investors' risks
- For investors: interest rate volatility = trading risk
                liquidity volatility = reinvestment risk
                uncertainty adds risk premium to interest
                rates
- Efficient cash management reduces uncertainty

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Cash Forecasting (1/20)

Objectives:

- To understand what are cash flows and how they can be managed.

- To be able to analyse and to forecast cash flows.

- **Cash flows**
  - Movements of funds in and out of an organisation
  - Cycle of cash inflows and cash outflows determines the organisations solvency and its long-term viability
- **Cash flow analysis**
  - The study of the cycle of cash inflows and outflows, with the purpose of maintaining an adequate cash flow for the organisation, and to provide the basis for cash flow management.
- **Cash forecasting**
  - Defining the future cash movements of an organisation in terms of:
  - Values
  - Timings
  - Currencies

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Cash Flow Analysis (2/20)

Cash flow analysis involves examining key components affecting the cash flow:

- Tax Flows
- Accounts Receivable
- Accounts Payable
- Infrastructure Expenditures
- Capital Expenditures
- Treasury inflows (investments, incomes etc..)
- Treasury outflows (bond coupons, bank interests etc..)
- All other flows

Performing a cash flow analysis on these separate components, allow you to more easily identify cash flows problems and find ways to improve the cash flows.

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Cash Flow Problems (3/20)

Cash flow problems are caused by excess expenditures over receipts over time:

1. **Loss making organisation (in general)**
2. **Inflation**
3. **Growth**
4. **Seasonality of flows**
5. **One off expenditures**
6. **Unexpected expenditures**
7. **Loss of revenue**

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Cash Flow Solutions (4/20)

All cash flow solutions are basically either increasing cash inflows, decreasing cash outflows or a mixture of both. Common solutions are:

1. **Reduce capital & infrastructure expenditures**
2. **Postpone capital & infrastructure expenditures**
3. **Accelerate cash inflows**
4. **Increase cash inflows**
5. **Reduce costs and expenditures**
6. **Sell assets**
7. **Negotiate reductions in cash outflows**
8. **Borrow**

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Basic Cash Forecasting issues (5/20)

Basic issues of forecasting:

- What is the value of the cash required/available?
- When is it required/available?
- For how long is it required/available?

If these questions can be answered for each operational aspect affecting cash flows in an organisation, then accurate cash flow forecasts are achievable.

Remember!

- Cash management = management of the existing cash and:
- starts when the money hits the Government accounts
- stops when the money leaves the Government accounts

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Treands in Cash Forecasting issues (6/20)

- Considered a significant value added process in recent years;
- Major advancements due to the increased use of integrated technology solutions:
  - ERP Solutions
  - Integrated Billing System
  - Integrated PFMS
  - Treasury & Debt Management Systems
- Use of IT provides for more accurate and more easily available information, that can be used to generate higher quality cash flow forecasts
- In general, the more IT support to provide forecasts, the more accurate cash flow forecasts will be

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Short term Cash Forecasting (7/20)

Short Term cash forecasting:

- Typically for a period of one to three month on a weekly rolling basis from today (Denmark: 8 weeks on a rolling basis from today).
- Produced on a weekly basis and updated in real time when necessary
- Highly detailed in terms of:
  - - cash flow types and amounts (purpose of flows)
    - cash flow timings
- Must be highly accurate due to short term nature.

- *Used for:*
- Active daily cash management
- Day to day management of Government bank accounts - ensuring money is where it needs to be on a daily basis.

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Medium term Cash Forecasting (8/20)

Medium Term cash forecasting:

- Typically for a period of one/three months to one year (start after ST forecasts)
- Should be produced on a quarterly basis at least to be effective (preferably on a rolling monthly basis).
- In practice often only produced on an annual basis and more akin to a budget than a cash flows forecast.
- Should give an overall pattern of revenues and expenditures for the times to come.
- Accurate within monthly time buckets.
- *Used for:*
- Identifying medium term net long/short cash positions
- Interest rate management
- Medium term funding/borrowing management and strategy.

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Long term Cash Forecasting (9/20)

Long Term cash forecasting:

- Typically for a period of one to five years;
- Produced annually:
- Seeks to identify long term trends in the Government cash position (link with Benchmark Debt Portfolio and Debt Management Strategy)

- *Used for:*
- Identifying core funding requirements
- Interest rate management
- Long term funding/borrowing management
- Supporting capital acquisition project
- Supporting infrastructure build projects
- Strategic decision making

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Succesful Cash Forecasting (10/20)

Successful and effective cash forecasting processes should make use of short, medium and long term forecasts

However, each forecast term, if accurate, provides standalone benefits. In general terms:

- Short Term: operational benefits, P&L benefits, daily decision making;

- Medium Term: operational benefits, P&L benefits, medium term strategy development;

- Long Term: strategy development, infrastructure and capital acquisition assessment.

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Elements 1 in Cash Forecasting (11/20)

Using past experience to identify future flows

Historical cash flow analysis of defined cash flows can provide valuable pointers for future cash flows in terms of:

- Expected values of flows
- Seasonality of flows
- Cyclical effects on flows
- Stability of flows (predictability)

This knowledge can add considerably to the accuracy in the forecasting process.

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Elements 2 in Cash Forecasting (12/20)

Lets build a model: Receipts and disbursements model

- Most common method employed
- Involves a deep analysis of the organisations accounts balances and comprehensive understanding of all cash inflows and outflows
- Use forecasts at start and replace them progressively by actual when available
- When no decent forecasts are available, build on the past and exercise judgment

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Elements 3 in Cash Forecasting (13/20)

Building blocks of the model: Receipts

Define and draw up a schedule of all receipts and cash inflows:
- Tax receipts (inland revenues, customs & excises, other taxes, etc…)
- Commodity revenues (Oil, Gas, Gold etc.,…)
- Dividends from state owned entities, receipts in capital,…
- Sales (privatizations)
- Proceeds on sale of assets (subsidised commodities – flour, sugar, rice,…)
- Maturing investments
- All other receipts (including grants, external supports, project financing, etc..)

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Elements 4 in Cash Forecasting (14/20)

Building blocks of the model: Expenditures

Define and draw up a schedule of all payments and cash outflows:
- General budget expenditures (suppliers and the like);
- Infrastructure expenditures, capital/asset acquisitions;
- Debt service (interest payments, capital repayments) – not forecasts but actual!
- Pay roll and similar expenditures – pensions, etc… (figures are more actual   than forecasts!);
- Utilities (phone, electricity bills,…) & gratuities (subsidies to Agencies, etc…);
- All other outflows (including Army & Defense !)

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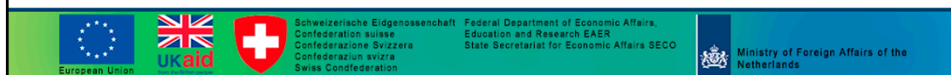
Elements 5 in Cash Forecasting (15/20)

Building blocks of the model: Example for debt related flows

Less complex to forecast than the «operational» flows: figures are actual once the loan has been contracted. Issuance calendar provides for receipts from « new » (or rolled-over) debt.

Flows related to

1. **ST, MT, LT debts** can be precisely quantified ahead of time (BO of DMU according to best international practices)
2. **Very short term and liquidity management** (i.e. pure cash management) **transactions** data are best kept track of by the Cash Managers themselves (= BO of DMU too)

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Elements 6 in Cash Forecasting (16/20)

Building blocks of the model: Timeline

Each receipt and disbursement must be categorised into:

- *Defined Cash Activity:*

  When receipt/disbursements are required by a specific date and the actual amount is known (ex.: payroll).

  These amounts are entered into the model based on defined parameters of cash activity.

- *Non-Defined Cash Activity:*

  When date and/or amount of the receipts/disbursements are not known in advance (ex. suppliers).

  The data are captured by the model on a « best estimation » basis.

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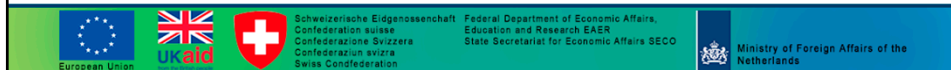
Elements 7 in Cash Forecasting (17/20)

Building blocks of the model: Cash Holding Position

The objective of the cash manager is to end the day at the desired cash holding position. Depending on the organization this may be:

- A minimum cash holding position (to protect against uncertainties – recommended in emerging countries)
- Zero
- A small overdrawn position (to ensure an over estimation of core funding does not take place).

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Elements 8 in Cash Forecasting (18/20)

Building blocks of the model: Actual/Forecast Comparison

Compare the forecasts with the actual figures: this is the final but a crucial step in the process.

The review of performance ensures that forecasts become incrementally better:

- Unknown variables become easier to predict.
- Cash flow projections become more accurate as more historical data are available.

Request clarification when the difference between forecast and actual are too large.

The IFMIS usually can help to automate population of the « actual » model.

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Elements 9 in Cash Forecasting (19/20)

Conclusion on the Receipts/Disbursments model:

No single forecasting method can provide all the answers.

Different methods should be employed to provide information on:

- Different time buckets/timeframes
- Operational and daily activities
- Strategic decisions
- Infrastructure and expenditures timings
- Future capital acquisition projects

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Elements 10 in Cash Forecasting (20/20)

Conclusion on the Receipts/Disbursments model:

- Cash Flow forecasting is increasingly being viewed as an important tool for financial management;
- Advancements in Technology are facilitating more accurate forecastings;
- Identifying cash flow problems at an early stage allows for effective implementation of cost-effective solutions;
- Analysis over different time periods is essential to provide information for different processes;
- Analysis using different methods provides valuable information for different decision making purposes

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Treasury Single Account (TSA) (1/21)

Objectives:

- To understand what a Treasury Single Account is
- To understand the ways to centralize Government accounts into a TSA

Definition: A TSA is a unified structure of government bank accounts that gives a consolidated view of government cash resources.

- Based on the principle of unity of cash and the unity of treasury, a TSA is a bank account or a set of linked accounts through which the government transacts all its receipts and payments.

- The principle of unity follows from the fungibility of all cash irrespective of its end use. While it is necessary to distinguish Individual cash transactions for control and reporting purposes, this purpose is achieved through the accounting system and not by holding/depositing cash in transaction specific bank accounts. This enables the Treasury to delink management of cash from control at a transaction level.

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Why 1 is a TSA important (2/21)

Government banking arrangements are an important factor for efficient management and control of government's cash resources. Such banking arrangements should be designed to minimize the cost of government borrowing and maximize the opportunity cost of cash resources. This requires ensuring that all cash received is available for carrying out government's expenditure programs and making payments in a timely fashion.

Many emerging market and low-income countries have fragmented systems for handling government receipts and payments. In these countries, the ministry of finance/treasury lacks a unified view and centralized control over government's cash resources. As a result, this cash lies idle for extended periods in numerous bank accounts held by spending agencies while the government continues to borrow to execute its budget.

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Why 2 is a TSA important (3/21)

A government lacking effective control over its cash resources can pay for its institutional deficiencies in multiple ways:

- First, idle cash balances in bank accounts often fail to earn market-related remuneration

- Second, the government, being unaware of these resources incurs unnecessary borrowing costs on raising funds to cover a perceived cash shortage

- Third, idle government cash balances in the commercial banking sector are not idle for the banks themselves, and can be used to extend credit. Draining this extra liquidity through open market operations also imposes costs on the central bank

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Why 3 is a TSA important (4/21)

- Establishing a unified structure of government bank accounts via a treasury single account (TSA) will solve these problems, improving cash management and control. It should, therefore, receive priority in any public financial management (PFM) reform agenda.

- A TSA also facilitates better fiscal and monetary policy coordination as well as better reconciliation of fiscal and banking data, which in turn improves the quality of fiscal information.

- Finally, the establishment of an effective TSA significantly reduces the debt servicing costs.

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Key features 1 of a TSA (5/21)

Unification

- The government banking arrangement should be *unified*, to enable ministry of finance (MoF or Treasury) oversight of government cash flows in and out of these bank accounts.

- A unified structure of government bank accounts allows complete *fungibility of all cash resources*, including on a real-time basis if electronic banking is in place.

- The TSA structure can contain ledger sub-accounts in a single banking institution (not necessarily a central bank), and can accommodate external zerobalance accounts (ZBAs) in a number of commercial banks.

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Key features 2 of a TSA (6/21)

Treasury only

- No other government agency operates bank accounts outside the oversight of the Treasury

- Options for accessing and operating the TSA are mainly dependent upon institutional structures and payment settlement systems (see the section on Transaction Processing under a TSA System)

All Government cash

- The consolidation of government cash resources should be *comprehensive* and encompass *all* government cash resources, both budgetary and extra-budgetary. This means that all public monies irrespective of whether the corresponding cash flows are subject to budgetary control or not (e.g., in the case of reserve funds, earmarked funds and other extrabudgetary funds) should be brought under the control of the TSA

- The cash balance in the TSA main account is maintained at a level sufficient to meet the daily operational requirements of the government (sometimes together with an optional contingency, or buffer/reserve to meet unexpected fiscal volatility)

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Objectives of the TSA (7/21)

Primary objective of a TSA is to ensure effective aggregate control over government cash balances.

The consolidation of cash resources through a TSA arrangement facilitates government cash management by minimizing borrowing costs. In the absence of a TSA, idle balances are maintained in several bank accounts.

Other objectives:

- ✓ minimizing transaction costs during budget execution, notably by controlling the delay in the remittance of government revenues by collecting banks, and making rapid payments of government expenses;
- ✓ facilitating reconciliation between banking and accounting data;
- ✓ efficient control and monitoring of funds allocated to various government agencies;
- ✓ facilitating better coordination with the monetary policy implementation.

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Benefits of the TSA (8/21)

Benefits from a TSA flow from its objectives:

1. Allows complete and timely information on Government cash resources;
2. Improves appropriation control;
3. Improves operational control during budget execution;
4. Enables efficient cash management;
5. Reduces bank fees and transaction costs;
6. Facilitate efficient payment mechanisms;
7. Improves bank reconciliation and quality of fiscal data;
8. Lowers liquidity reserve needs.

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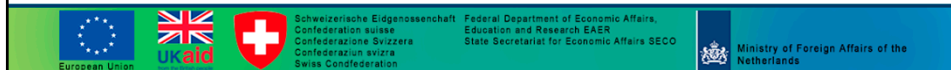
Custody of the TSA (9/21)

- With the Central Bank in most countries (but the CB may not necessarily maintain bank accounts for agency-specific transactions – no retail transactions)

- May consist of several bank accounts which can be at both the CB and in commercial banks, provided that the balances in commercial banks are cleared every day into the TSA at CB.

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Coverage of the TSA (10/21)

- Delineating the boundary of a TSA is an important issue, and needs to be carefully considered in light of each country's institutional and legal/regulatory framework.

- At a minimum, the TSA should cover all central government entities and their transactions (EU SEC: S13).

- Extending TSA coverage may be challenging, and some issues need to be considered.

- It has become international good practice to include as many government-controlled trust funds and EBFs within the TSA as legally possible.

- If mutually agreed, one TSA for both central and subnational governments could be set up.

- What about donors? Example of Mozambique

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Structure 1 of the TSA (11/21)

- Although there are several variants of the TSA structure that conform to the objectives discussed above, they can be broadly grouped into two categories: **centralized** and **distributed** TSA architectures. The TSA systems established in most countries fall somewhere in between these two models.

- A purely centralized arrangement is one in which all revenue and expenditure transactions of the government pass through a single account generally maintained with the central bank.

- At the other extreme, a TSA could be virtually operational even though line agencies—down to the lowest level in the organizational hierarchy—are allowed to retain separate transaction accounts in the banking system. However, in the latter case, balances in all transaction accounts should be swept into the TSA main account at the end of each day.

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Structure 2 of the TSA (12/21)

- The degree of decentralization of a TSA structure is linked to the authority of various entities to access and operate the government bank accounts.

- In some countries, the TSA is composed of a single bank account (sometimes with subsidiary ledger accounts) at the central bank, which is operated either by a centralized authority (such as the treasury and its regional units) or by a number of budget institutions. In the latter case, each budget institution's transactions are tracked, accounted for, and managed through a well developed general ledger system.

- On the other hand, there are countries (e.g., Sweden) that have several linked bank accounts outside the TSA main account—with their balances automatically swept off at the end of each day. Individual line agencies (including deconcentrated units) are allowed to have separate transaction accounts and operate them.

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Types of accounts under the TSA (13/21)

1. **Main account**
2. **TSA subsidiary accounts or sub-accounts**
3. **Transaction accounts**
4. **Zero-balance accounts**
5. **Imprest accounts**
6. **Transit accounts**

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Transactions processing 1 and the TSA (14/21)

One key question is how the consolidation of cash balances through a TSA will interface with transaction processing and accounting systems, the latter being either centralized or decentralized.

Issues related to cash management should not be confused with issues related to the distribution of responsibilities for accounting control and administration of the payment system. A TSA can operate with both centralized and decentralized (or deconcentrated) transaction processing and accounting control systems.

However, the feasibility of implementation depends on the level of technological development of the banking sector and the government, including an IFMIS and a reliable communications network.

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Transactions processing 2 and the TSA (15/21)

There are two primary transaction processing models, each of which could be associated with either the centralized or distributed TSA architecture

- The first model is based on ***centralized transaction processing***. This implies a concentration of authority at the Treasury to process transactions, and access and operate the TSA

- The second model is associated with ***decentralized payment and accounting systems****.* In this case, each budget institution processes its own transactions during budget execution and directly operates the respective bank account under a TSA system

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Transactions processing 3 and the TSA (16/21)

Centralized model: Under this model, requests for payments are prepared by individual budget agency and sent to a central Treasury payment unit for control and execution.

- Although in this model the payment and accounting functions are centralized, individual spending agencies are treated as distinct accounting entities through a treasury ledger system.

- The central unit processes and records all inflows and outflows and cash balances to the appropriate ledger account.

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Transactions processing 4 and the TSA (17/21)

Decentralized model: **Under this model, individual budget agencies process and make payments directly to suppliers and account for these transactions through a TSA system**

- An example of a decentralized model is one that combines TSA sub-accounts for line ministries and zero-balance accounts for individual spending agencies within each line ministry

- Under the decentralized model, the process of sweeping a large number of bank accounts, especially if these are in different banks, may pose a challenge and errors may result

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Design of the TSA (18/21)

The following key parameters influence the design of a TSA in a country-specific context:

1. State of development of the banking system
2. Preferred degree of (de)centralization of transactions
3. Need for agency-specific transaction accounts
4. Need for transit accounts (tax revenues)
5. Interface between transaction processing/accounting and the TSA system
6. Bank reconciliation procedures
7. Prevailing interbank clearing and settlement systems
8. Changes to the chart of accounts/treasury ledger;
9. Availability of an IFMIS.

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Specific TSA design 1 issues (19/21)

- Whether revenue specific separate bank accounts should be set up for the major sources of government revenues and customs receipt. This is a normal practice in many countries with broad-based revenue collection arrangements such as the use of the commercial banking network for the purpose.

- Whether there is a need to have transit accounts other than for revenue collection.

- Assess in the market if a daily settlement between the ZBAs of budget institutions and the TSA main account would be technically feasible. This would depend upon the technology used for interbank settlements and the system used by the CB for clearing of collections and payments with the commercial banks.

- What should be the appropriate interface between the TSA and the transaction processing/accounting systems, the latter being either manual or electronic?

- What accounting arrangements needs to be established to integrate the cash balances of legally constituted extrabudgetary funds into the TSA structure, and allow the government to maintain the distinct accounting identity of these funds?

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Specific TSA design 2 issues (20/21)

- What specific procedures for processing, recording, and reporting of transactions need to be developed to enable the consolidation of fiscal data at agency, department, and whole-of-government levels?

- What would be the appropriate strategy for obtaining payment processing and revenue remittance services from commercial banks on a remuneration basis? For example, electronic direct payments to and from the TSA are common, even in developing countries where the banking infrastructure permits electronic fund transfer (EFT) operations.

- The distribution of roles and responsibilities (between ministries, spending agencies, commercial banks, the CB and the Treasury) and reporting arrangement for bank reconciliation under the TSA arrangement?

- Whether there should be special arrangements –cash safes and imprests, f.i.) for remotely located budget institutions without access to the banking network.

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Preconditions for a TSA (21/21)

1. Preparing an inventory of existing bank accounts and close the "dormant accounts".
2. Political support (conflict of interest…).
3. Legal and regulatory requirements.
4. Technological requirements.
5. Existence of an interbank settlement system.
6. Appropriate interface between the Treasury and the banking network.
7. A comprehensive chart of accounts.
8. Capacity development of the TSA users.

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How can the IFMIS support these different functions (1/8)

Objectives:

- To discuss our business objectives in these functional areas
- To discuss how our IFMIS can support achieving these business objectives

Our functional areas

- Cash forecasting
- Cash management
- TSA

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Support to cash 1 forecasting (2/8)

1. Running our model with data form IFMIS on actuals requires:
   - Well executed bank reconciliation procedures
   - Period closing procedures
   - Frequently reconciling the ledger and the cash forecast model – does it perform well, are data accurate and updated (Tip: Simple test, does our IFMIS bank account (s) reconcile with the physical bank account (s) and can we explain the differences, does the IFMIS bank account (s) reconcile with the forecast model!)
   - Under accruals it is necessary to work with cash flows (statement of receipts and expenditures) and not confuse depreciation and similar accrued expenditure with cash – if budget is cash and accounts accruals it is necessary to bridge accounts properly

2. We can collect data from sectors and other stake holders on expenditure plans, any relevant revenue, planned procurement etc. and integrate the data in our IFMIS – but discipline and data quality is often an issue

3. Data on accounts receivable and accounts payable are extremely useful – if they are reliable!

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Support to cash 2 forecasting (3/8)

4. What modules other than core (GL, AP, AR) are relevant for cash forecasting (Debt management, payroll, revenue, planning/budget)? Are they properly integrated or should we improve manual data integration and exchange procedures

5. Commitments, warrants, multi-year commitments, budget releases – are the these conceptually well defined in the CoA and configured/implemented in the IFMIS (expenditure phases ..)

6. At what level do we carry out budget execution control and warrants (budget release) control, is timing in sync

7. Cash rationing – do we know the underlying reasons why? Hampers credibility of the budget and even of the IFMIS and creates arrears and pending bills

8. Bank reconciliation – is it automated? What are the issues?
   - Electronic payments and revenue collection on multiple channels, do we have the right setup?

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Support to cash 3 forecasting (4/8)

9. Are the institutional arrangements in place – are all relevant stake holders involved supplying data to the forecasting process and are all relevant offices using the IFMIS with appropriate access and privileges

10. Excel versus cash management module

11. Accounts outside the IFMIS and outside of treasury control

12. Interfacing and interoperability issues – can we get the right data from the banks regarding bank statements, coding of transactions etc.

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Support to cash management (5/8)

- Improving control and quality in our cash forecasting model will enhance our ability to chose the right mix of cash management instruments and tools

- We may also need to expand the palette of tools available to us in a collaboration with the central bank and the commercial banks – and possibly the regional and international banking and money markets

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Support 1 to TSA (6/8)

- Does our IFMIS and TSA integrate – are the interfaces set up correctly

- Does the Central Bank offer ACH and RTGS and does the CB have issues with software and data quality

- How has the Banking network developed (Brick and Mortar), reach and locations, mobile banking

- Are banking costs reasonable/relationship with the banking sector

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Support 2 to TSA (7/8)

The reliability and integrity of TSA operations depend on several key requirements related with the daily recording / reporting of all revenues (receipts) and expenditures (payments):

- A bank statement containing all the details about the flow of funds in the TSA should be generated directly by the Central Bank information systems, independently from the Central Treasury (as the organization managing payments). Such bank statements should be available to the Central Treasury for automated reconciliation through the FMIS General Ledger (GL) module on a daily basis. If the Central Treasury is a direct participant of the interbank payment systems, there must be absolute assurances that such bank statements are generated directly from the interbank payment systems, and supported by consistent information from the Central Bank GL

- No manual interventions. All processes (from initiation to final payment and reconciliation) should be automated and run on secure platforms

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Support 3 to TSA (8/8)

- FMIS accounting module (GL) should maintain full cashbook records for the TSA bank accounts. All TSA transactions must be accounted for in the FMIS by the appropriate source (e.g. it may be the revenue collectors, rather than the Central Treasury, that enter the transactions for revenues deposited to the revenue transit accounts in commercial banks, but then the Central Treasury accounts for the sweeping of the balances from these transit accounts to the accounts in the CB)

- Each TSA transaction must contain a unique identifier which can be used to link the payment or receipt to the accounting entries in the Central Treasury's FMIS GL. The Central Treasury should be able to reconcile the CB statements on the Central Treasury's bank account balances and the FMIS GL data, regularly (daily) and promptly, benefiting from underlying systems

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TSA setup
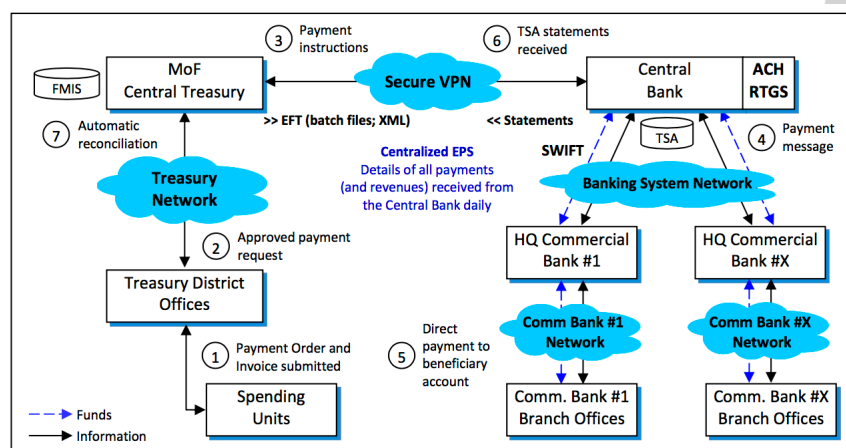
Source: Wim Cener and World Bank

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Introduction and Background

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Session Overview

- Introduction and Background

- Approval to Commit and Spend (the Warrant)

- Commitment and Expenditure Control

- Challenges for Reinstating Effective Control

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Why commitment control?

- Need to ensure expenditures are maintained within budget and within available cash

- Overspending against the budget breaches the PFM law and undermines the fiscal aggregates established as part of the policy objectives

- Overspending needs to be controlled at the commitment stage – it is already too late at the payment stage

- Control needs to be exercised against available cash, as well as the budget

- If there are revenue shortfalls, unavailability of cash will result in payment arrears

- IFMIS design in the region has largely taken these considerations on board

Introduction and background

- In many countries, IFMIS played instrumental role in strengthening commitment control and prevention of payment arrears

- However, in recent years, many countries have experienced slackening of controls and re-emergence of payment arrears

- IFMIS not being used effectively to prevent over-commitment and payment arrears

- Sometimes controls have been relaxed to accommodate other reforms without considering control implications

- Controls are only exercised partially against expenditures

- Many transactions undertaken outside system as controls inhibit implementation of their activities

Budgetary Control Framework

Budgetary Control Framework 1

- Constrain the warrant within the budget but base on forecasts and projections (not budget per se)

- If revenue inflows are in shortfall identity from reviewing recent collections and annual seasonality patterns

- Warrant is broken down by Chart of Accounts classification for (say) the coming quarter

- Cash release is usually fungible (not by account code) for the coming month

- Warrant must profile the (future) cash requirement, otherwise payment arrears will accumulate
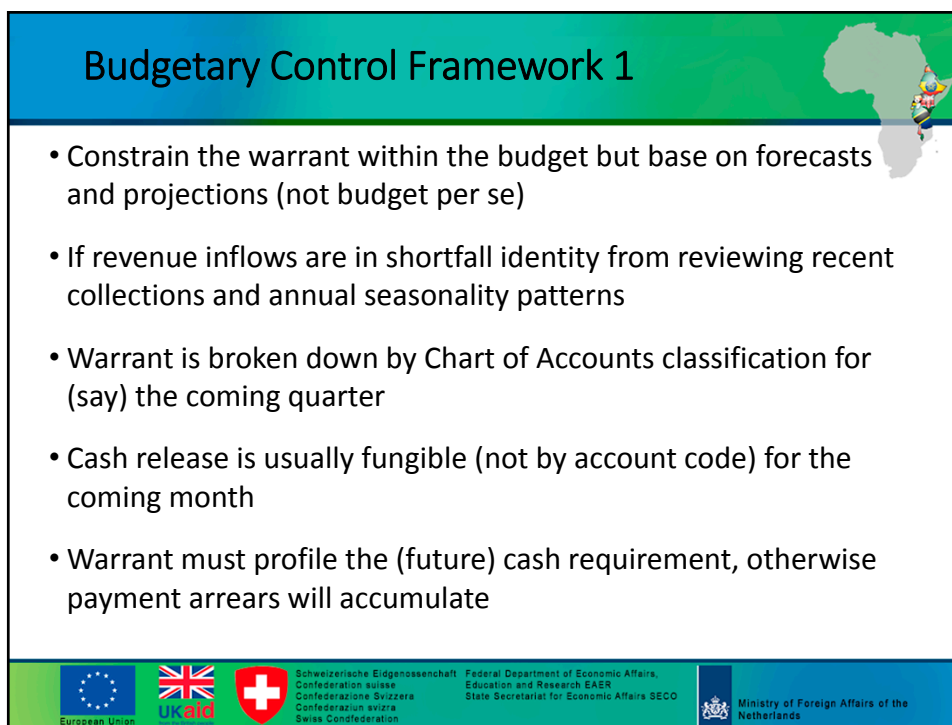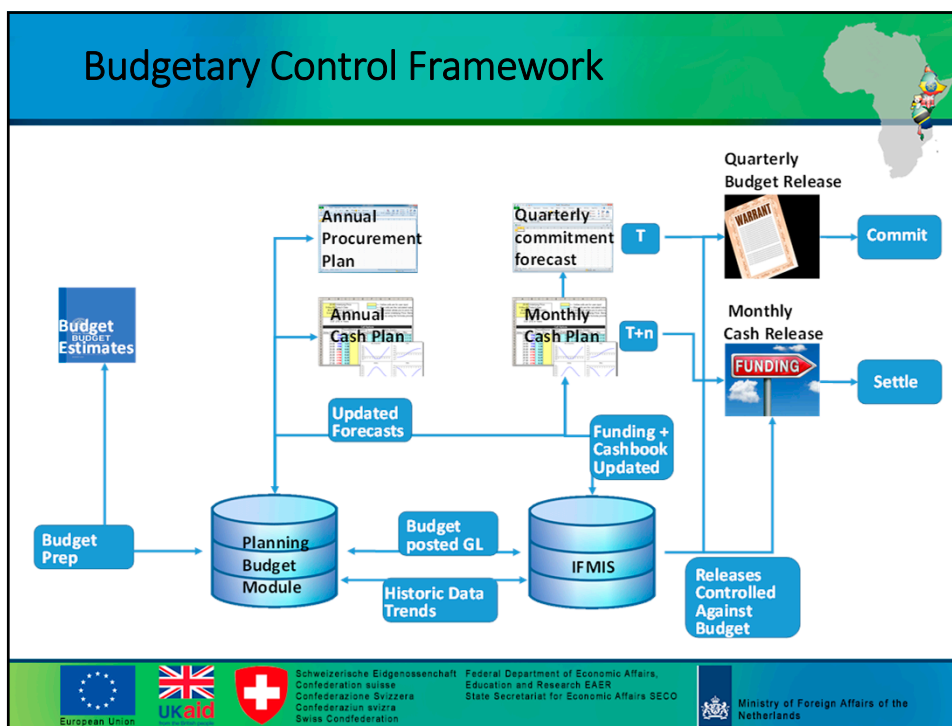
Budgetary Control Framework 2

- Timing differences between commitment and payment (T, T+n) but aggregate annual warrant must be constrained within aggregate annual cash

- IFMIS controls warrant release ensuring constrained within budget

- Virements (budget transfers) also constrained within budget (subject to revised budget)

- Warrants and virements entered into IFMIS for funding budget

- Releases limited to available (forecast) cash – decisions by cash/ceilings committee

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Approval to Commit and Spend
(The Warrant)

Appropriation Act and Budget Release

- Before any committing or spending, must be provision in budget

- But budget alone not sufficient to commence commitments and spending

- An approval through a warrant (or budget release) is required before spending can commence

- Often a general warrant is issued to head of Treasury who then releases funds to the accounting officers (Heads of the Budget Votes)

- Warrant sometimes referred to as budget release or allotment

- In IFMIS the budget release is the funding budget against which commitments and expenditures are controlled

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Time Horizon of Budget Release

- In advanced countries, controls are effective, funds (and inflows) are predictable, so can release the annual appropriation in full

- Within the region (and similar countries) releases generally for shorter time horizons – either quarterly or monthly

- Monthly releases really too short for enabling commitments and effective planning:

  - Delivery lead times on procured items, including partial/multiple deliveries and invoices

  - Stage payments on contracts (commitment when contract signed)

- Leads to cash rationing rather than planning, and ultimately weakened control

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The Warrant v Cash Release

- Often the two are used interchangeably and sometimes confused but their differences need to be recognized

- The warrant is the funding budget in IFMIS for budgetary **control** of commitments and expenditures

- Cash release – either
  - Physical transfer of cash to bank account
  - Transfer of "virtual" cash, e.g. for MDA cash book under central payments/TSA arrangement
  - Or cash ceiling for settlements in TSA sub-account

- Cash release for **control** of cash book – avoid overdraft

- Warrant should be backed by "future" cash releases

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Commitment Forecasting

- Combines many players, in Ministry of Finance, Revenue Authority, MDAs, external finance, etc.

- INFLOWS and OUTFLOW

- Make better use of information available in IFMIS for determining historic trends and seasonality **BUT**

  - This requires forward looking so also consider procurement and work plans for new policies/programs; and

  - Revenue Authorities for new revenue collection measures

- Many package solution have cash management modules but not often used due to nature of inbuilt functionality – no differentiation between commitment and cash forecasting

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Commitment Forecasting

- MS Excel used in many countries for commitment forecasting but this misses some of the benefits of database solutions

- Planning software such as Hyperion and Isidore better suited to planning, forecasting and modelling could be an option

- Database solutions provide better history for variance analysis for continual improvement in quality of forecasts

- Forecasts (and warrants) should be constrained by but not led by the budget. In other words, if it is clear that there are revenue shortfalls don't wait for mid year budget review

- Maybe Month 1 revenue forecasts should be based on previous months' trends and seasonality from figures in IFMIS more than the budget per se. Database software provides better linkages to: actual outturns; budgets; previous forecasts, etc. and automate analytical capabilities of worksheets

Commitment Forecasting

- In many countries MDAs give low response on outflow forecasts – annual forecasts are not updated on a regular basis – How can IFMIS help?

- Smooth expenditures from continuing commitments is easier to predict and forecast

- IFMIS (PO module) showing commitments with future cash requirement (T, T+n) and updated procurement and work plans provide informed forecasts - but requires reliable due dates to be recorded when committing in IFMIS

- Contractual commitments reflected in PO module, with payments schedules

- Debt and other payments with predictable schedules can be committed at the beginning of the quarter

Commitment and Expenditure Control

Understanding Commitments

- What constitutes a commitment? Definition of a commitment:

A commitment is an obligation to effect a future payment subject to the fulfillment of certain conditions (contractual or otherwise)

- Most more familiar with purchase type commitments through LPO

- How do we commit personal emoluments?

- How do we commit utilities and other **continuing/running** ORT commitments?

- How do we commit stage payments against a contract?

- How to commit statutorily obligated and other transfers?

Recording Commitments in IFMIS

- In IFMIS commitments usually managed through PO Module – some packages (e.g. FreeBalance) have a distinct commitment management module

- IFMIS undertakes budgetary control checks against the budget release (the funding budget)

- Budgetary Control generally a standard (out of the box functionality) – in some systems is a customization, which can present some challenges

- Often only covers purchase type transactions – this is inadequate

- Need to cover all expenditure categories, identify the aggregate commitment position (whole of Government and Vote level)

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Recording Commitments in IFMIS

- Statutory expenditure does not require warrant from legal perspective but is important from aggregate cash perspective

- Use commitment or PO module for all categories of expenditure

- LPO for purchase type items and Expense/Commitment Order for others

- Commit in IFMIS all continuing expenditures (with payment dates) at start of Quarter

- Also commit all contract payments and transfers

- Could set tolerances or err on cautious side on amounts to avoid proliferation of adjustments (separate rules to LPOs in IFMIS)

- Committing all expenditures shows unencumbered balance

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Procure to Pay Expenditure Process

Other Expenditure Processes

- Contract payments should still have verification in the system (Stage Certificates) so follows Procure-to-Pay Process – IFMIS enabling multiple payments controlled against single commitment

- Need to setup up warrants as well as commitments for all expenditure items – including non-procured goods and services

- Setup other expenditure items with similar process – except no goods receiving (verification)

- Commitment (Expense Order) value would be a best estimate (hopefully close) but not precise as with LPO

- Invoice matched against EO and EO adjusted automatically, subject to funds checking – can set tolerance levels within IFMIS for automatic adjustment

Other Expenditure Processes

COA Level of Commitment Control

- In advanced countries control exercised at more aggregated level, e.g. by Program – gives more flexibility to Program Managers, makes them more responsible and accountable

- IFMIS can be configured to control at any level of Chart of Accounts

- Should avoid too detailed level, e.g. sub-item level if no added control value, otherwise excessive virements

- Depends on the legislative and regulatory framework

- IFMIS can control against summary levels

System Enforcement of Commitment Control

- Commitment and expenditure control can be:
  - Mandatory – strictly enforced by IFMIS
  - Advisory – managers are alerted of over-committing/spending
  - None – control is completely manual
- Usual preference – Mandatory
- Is a trade off between control and ability to record/report fully
- For example, if an invoice fails the funds check it is not possible to post the liability (accrual accounting)
- Also how does IFMIS record payment arrears, if these items have failed funds check?

Additional Controls

- **ALL** invoices require a commitment (LPO/EO) and cannot approve invoice unless matched to the commitment
- No commitment? No Payment! No Exceptions!
- This forces the recording of all commitments with funds checking
- Can analyze recording dates against actual date of commitment – determine where system is not being used properly, e.g. committing manually first then recording/posting after the event
- Can setup alerts where invoices do not have a **prior** commitment

Challenges for Reinstating Effective Control

Common Problems

- Budget credibility and poor quality commitment and cash forecasts culminate in cash rationing on monthly basis, undermining effecting planning

- Several instance where there is no distinction between commitment and cash ceilings – both configured as a monthly figure

- Short time horizon of warrant inadequate for many procurement items so MDAs start to issue manual LPOs outside IFMIS

- This leads to cash rationing rather than cash planning

Common Upstream Problems

- MDAs not updating procurement plans, work plans and cash plans frequently in-year

- So warrants do not properly reflect planned commitments and spending, based on high quality forecasts

- Cash requests and commitment forecasting becomes a trading game – MDAs know they won't get all funds – so front load

- Cycle of poor quality commitment forecasts – never learning from the experience

- Limited use of variance analysis for continuous improvement in commitment and cash

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Common Downstream Problems

- Due settlement/payment dates against LPOs not entered – default 30 days – so cash requirement forecasts lack quality

- Stage contract payments only committed once invoice is received

- Commitments are only made for LPO purchase-type expenses - other items not committed – No aggregate committed position

- If funds are not properly encumbered they can be reused for alternative purposes and the unrecorded commitments result in payment arrears

- Commitments made outside the system and continuing/running expenditures not committed at all

- Incomplete IFMIS coverage of all financial transactions

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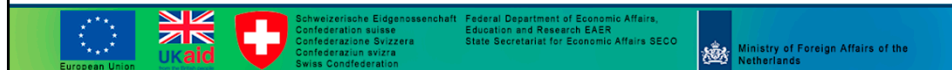Confederazione Svizzera
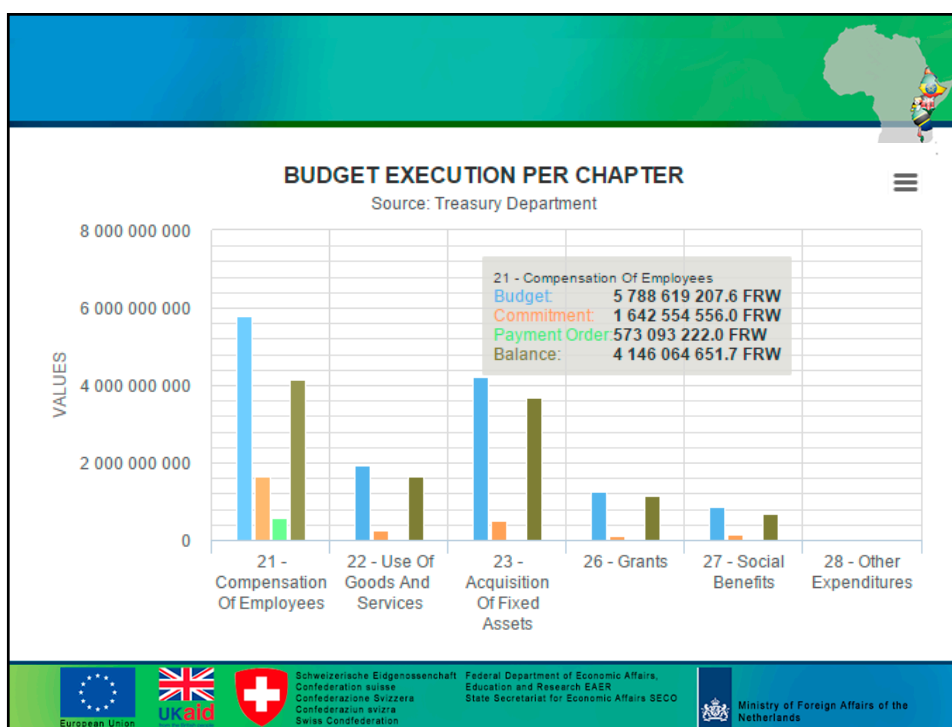Confederaziun svizra
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Payment Arrears

Identification and Recording of Arrears

- Largely recorded and reported outside of IFMIS

- If expenditure and commitment controls are effective, limited incurrence of arrears

- Symptomatic of transacting (commitments) outside of IFMIS

- If there are inadequate funds – how can invoice be processed in system?

- Trade off between system controls and recording of important financial information

- Depends on solution – can record the invoice in draft (unapproved – memorandum)

Reporting of Arrears

- Recording all invoices in IFMIS, even in unposted format, enables identification and reporting of arrears

- Can consolidate more easily – no need for submissions from MDAs per se

- Can analyze arrears by: expense category; MDA; Vintage Profile (90+, 120+, 180+, 360+ days, etc.)

- Reports on Arrears from IFMIS with Audit Trail – easier verification

- Alerts can be configured into IFMIS to escalate issues where procedures not being adhered to, e.g. committing outside the system, etc.

What Can Be Done?

Strengthen Warranting Process

- Improve quality and credibility of budget goes without saying

- Improve quality of commit forecasting and predictability of availability of cash

- Extend time-horizon for releases of budget funds – minimum 3 months, 12 months for long term contracts

- Make better use of information from IFMIS

- Ensure 100% coverage of IFMIS for all financial transactions to improve quality of the information being used in decision making

Strengthening Commitment Control

- Commit **all** expenditure prior to incurring the liability (through IFMIS – with associate controls)

- Forward post continuing/running expenditure items, so the obligations are not overlooked and funds are duly encumbered

- Ideally implement a contracts management module, or make inventory list of contracts, to identify upcoming/due payments

- Commit all contract payments at start of year or failing that make them the first call on funds at the beginning of each quarter

- LPOs and other commitments – **REALISTIC** due settlement dates (not everything defaults to 30 days)

- Transact fully through IFMIS

Feedback and Questions?

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Session 7: Presentation of information through executive dashboard

Jean de Dieu Rurangirwa
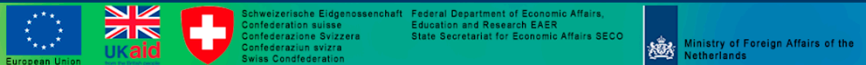
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- **Executive dashboard definition and trends**

- **Use of Executive Dashboards in Public Finance Management**

- **Executive dashboards and Alerts or events notifications**

- **Factors for successful Executive Dashboard strategy**

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Executive Dashboard Definition

- An Executive Dashboard is a visual representation that gives Executives a quick and easy way to view their company's performance in real time;

- It can give 360° view of business operations by pulling data from various sources and company's application systems into one place in a readable visual representation;

- It gives visibility, facilitate controls, trends analysis, KPI monitoring and risk measurements;

- Provide basis for Strategic, tactical and operational decisions making process and indicate appropriate measures to take;

- High level and analytical information with options to drill down or dig deep into more details;

Integrated FMIS

Goals > Sustainable public resource management + Effective public service delivery + Open and accountable government
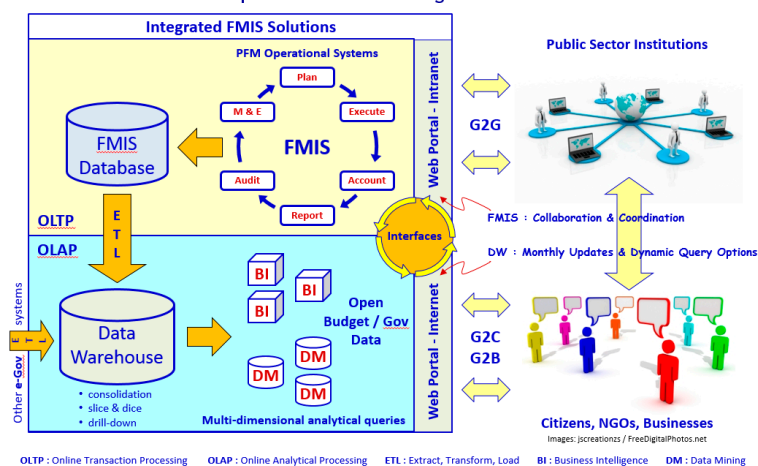
OLTP : Online Transaction Processing   OLAP : Online Analytical Processing   ETL : Extract, Transform, Load   BI : Business Intelligence   DM : Data Mining
* Cem Dener, IFMIS COP, May 2015

Evolution of Data warehouse Executive Dashboard

- Need for data warehouse to deliver timely and accurate information to Business Intelligence Dashboards;

- Need to store a big amount of data and process it in a faster and efficient way;

- High cost and insufficient resources to design, deploy and maintain complex Data warehouse (DW) system;

- Challenges of ensuring data quality and interoperability with various systems and APIs.;

- Data warehouse appliances and virtualization combining software applications and hardware ready for configuration, deployment and operation of Data warehouse system;

- Analytical databases optimized for high performance, speed of retrieval and analysis for a big amount of data;

- In-memory data grid enabling users to access and use data that resides completely in memory with scalability and effective handling of large data sets;

- Introduction of Enterprise service buses (ESB)facilitating communications and interaction of applications in a Service-oriented Architecture (SOA);

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Budgeting and expenditure control

- Budget allocation by Sector, Strategies and Type of Expenditures;
- Actual spending performance monitoring by various parameters;
- Analysis of Efficient and timely use of allocated funds;
- Monitoring of arrears and aging analysis;
- Periodic payments and revenues collection performance;
- Expenditure trend analysis and monitoring of defined Financial Management Key Performance Indicators (KPIs);
- Monthly or quarterly cash flow projections and performance
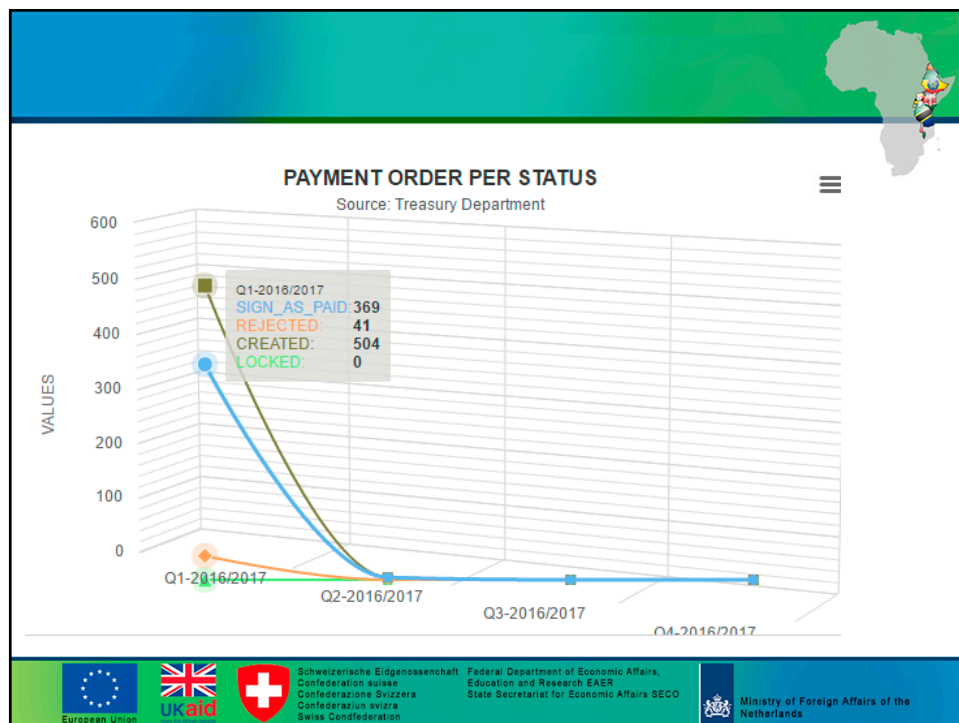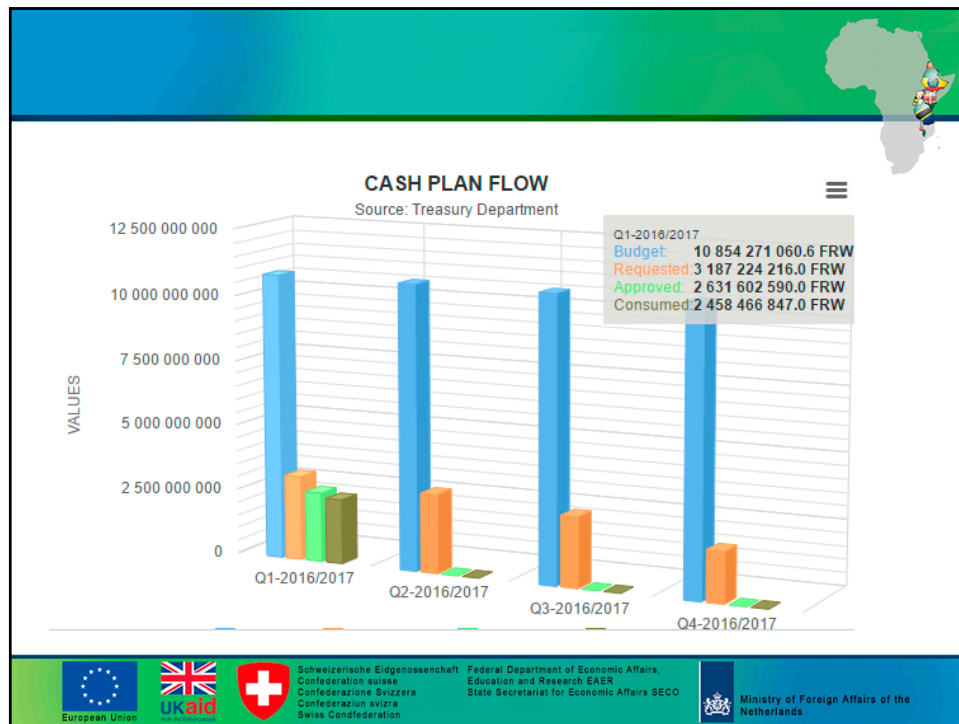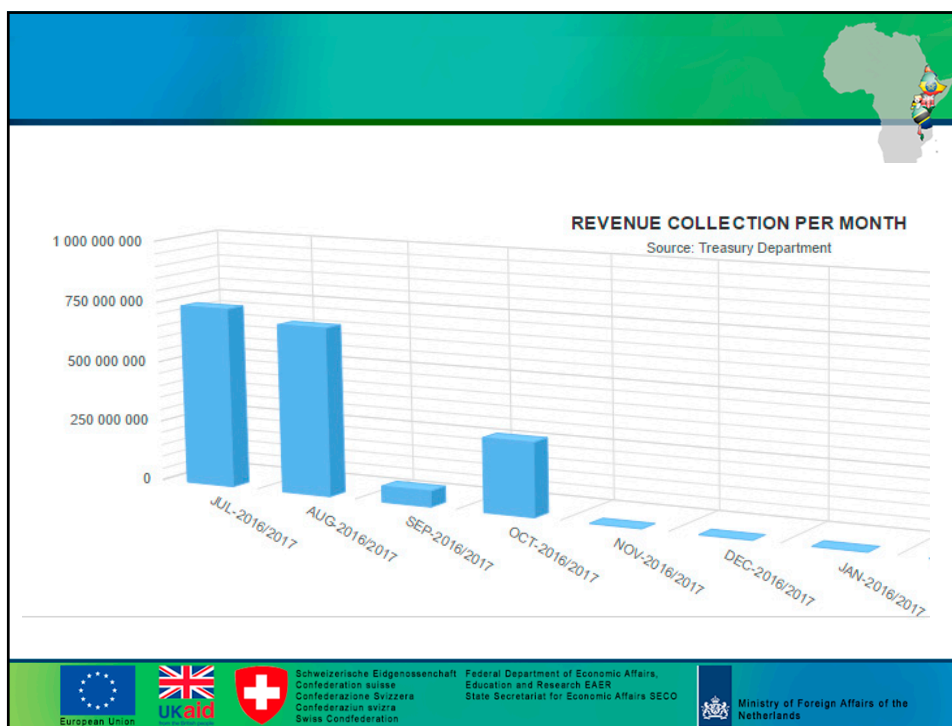
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BUDGET EXECUTION PER CHAPTER

Source: Treasury Department

21 - Compensation Of Employees
Budget: 5 788 619 207.6 FRW
Commitment: 1 642 554 556.0 FRW
Payment Order 573 093 222.0 FRW
Balance: 4 146 064 651.7 FRW

VALUES

8 000 000 000

6 000 000 000

4 000 000 000

2 000 000 000

0

21 - Compensation Of Employees | 22 - Use Of Goods And Services | 23 - Acquisition Of Fixed Assets | 26 - Grants | 27 - Social Benefits | 28 - Other Expenditures

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REVENUE COLLECTION PER MONTH
Source: Treasury Department

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Executive Dashboard and Alerts

- Executive Dashboard can alert the Manager on issues or problems in specific business or operations areas;
- Alerts are triggered by Measurement or performance to a given level of initially defined Business Key performance indicator;
- Alerts signal can be viewed at the Dashboard interface or delivered to the User/Manager through various communication channels based on the level of criticality; (electronic mail, short message…);
- Some Dashboards will alert the User/Manager as to when and what decision needs to be confirm to close the problem;
- IT operations activity monitoring dashboards provides real time status of applications, processes, services to ensure services high availability and accessibility

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Application systems activities monitoring

Type	Availability	Health	Today's Availability			
Database Query Monitor	⬆	●	████████████	100.0%	📄	📊
Database Query Monitor	⬆	●	████████████	100.0%	📄	📊
Nginx	⬆	●	████████████	100.0%	📄	📊
PostgreSQL	⬆	●	████████████	100.0%	📄	📊
PostgreSQL	⬆	●	████████████	100.0%	📄	📊
MongoDB	⬆	●	████████████	100.0%	📄	📊
Oracle	⬆	●	████████████	100.0%	📄	📊
LDAPServer	⬆	●	████████████	100.0%	📄	📊
Linux	⬆	🔴	████████████	100.0%	📄	📊
Linux	⬆	●	████████████	100.0%	📄	📊
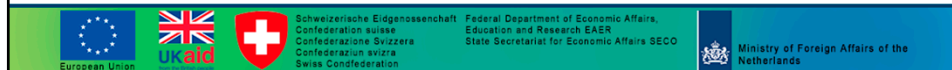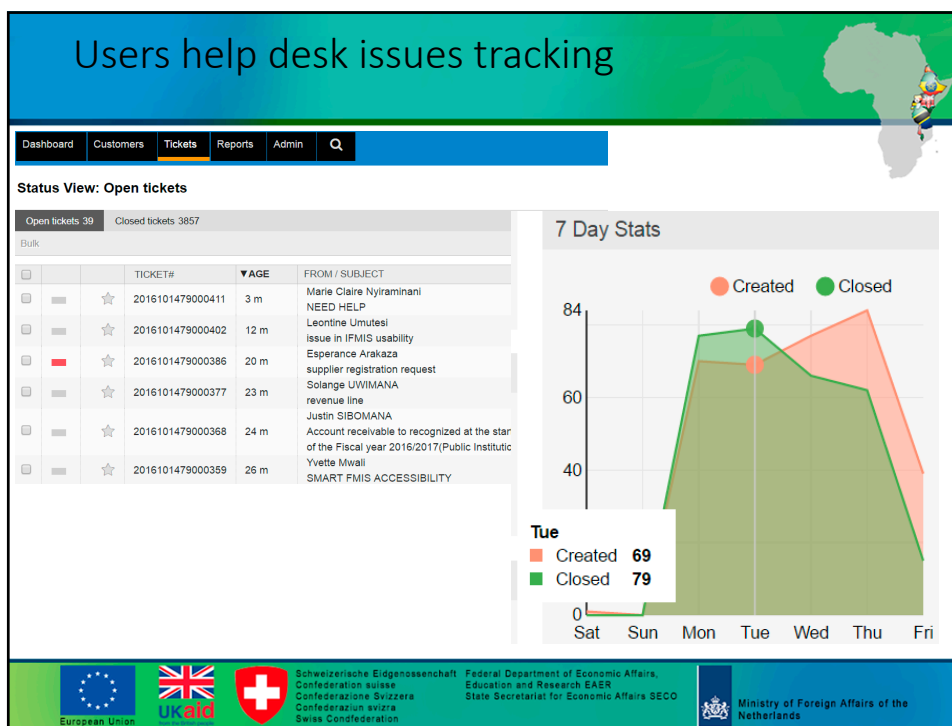
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- **Factors for successful Executive Dashboard strategy**

Factors for successful Dashboard Strategy

- The strategy should be aligned with Institutional strategic objectives, solving key business challenges and have specific and measurable progress;
- Having clear definition and understanding of different types of decisions to be supported at various level of the institution;
- Understanding of organizational structure, roles and responsibility of various users from Executive Management;
- Ensure data availability, timeliness, accuracy, reliable delivery channels, security and governance structure;
- Conduct and gap analysis to assess available technology or needed to meet various users Dashboard's requirements;
- Ensure proper capacity building and change management plan;
- Strong Management ownership, will and commitment;

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IFMIS: Strengthening PFM operational support and control
Session 8: Financial reporting through IFMIS

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Topics in this session

This session will discuss financial and non-financial reporting for different purposes.

- Financial reporting
- Non-financial reporting
- Cash, accruals, IPSAS and GFS
- Cross-cutting: How can the IFMIS support reporting

Financial reporting through the IFMIS (1/9)

IFMIS- Integrated Financial Management Information System
- Enhance governments' capacity for fiscal management and reporting
- Ensure transparency and accountability; and demonstrate government performance in the provision of goods and services
- Facilitate decisions on macroeconomic, monetary, and fiscal policies;
- Achieved through:
  - Facilitating effective and efficient public resource allocation and utilization
  - Supporting timely processing and transaction of transactions
  - Providing controls for efficient budget formulation and execution (expenditure management)
  - Providing credible, reliable and readily available fiscal data for fiscal reporting
  - Facilitating timely production of annual financial statements
  - Facilitating cash management

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Financial reporting through the IFMIS (2/9)

But creating timely and reliable reporting faces many challenges (1/3):

- Ideally we would like to see out IFMIS work as a consolidated repository for all relevant information
  - Coverage issues: LG, Pension funds, SOEs, statutory entities, development projects
  - PBB reporting, including non-financial information in reports
  - Combining data from different sources in reports, e.g. non-financial from budget management software;
  - Also multiple ledgers in reports – different dimension in different modules
  - How to include balance sheet data (non-financial assets and liabilities in memorandum form under cash basis of accounting) as for example defined by the GFS 2014 manual

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Financial reporting through the IFMIS (3/9)

Challenges with Annual financial statements (2/3)

- The timeliness, comprehensiveness and the quality of the annual financial statements is often hampered by issues related to delays in bank reconciliation, regularization of BTL-transactions, including instances of lack of supplementary appropriations, delays in the recording of revenues and timely inclusion of externally funded programs – on the other hand the authorities has also made progress in these areas. <u>One of the fundamental issues seems to be that of accounting data, integrity and quality</u>

- Also, comprehensiveness in terms of inclusion of the effects of SoE's and government statutory bodies is often seen as an issue. Furthermore, the format of the financial statement often offers scope for improvement with respect to fully comply with national legislation in particular and IPSAS requirements in general

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Financial reporting through the IFMIS (4/9)

Challenges in In-year fiscal reporting (3/3)

- Some countries face a need to further develop monthly in-year budget execution reporting to key stakeholders, including the senior management in the line ministries
- The current reporting is often produced with difficulty in obtaining timely and complete data
- The focus of these reports should be on the progress of budget execution – revenue collection; pace of expenditure, including the commitments entered and outstanding; current and fiscal balance; deficit financing; and liquidity management. Comparison with budget estimates, original and revised, would be a must for any meaningful analysis of this information
- The timeliness of in-year reporting will be important for maintaining the relevance of the data to decision-makers

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Financial reporting through the IFMIS (5/9)

Who uses financial reporting?
- International organisations and donors
- Government line ministries and agencies
- The public (Banks, NGO's, the media)
- Parliament
- The audit institutions
- The executive
- Overseas investors

- Financial markets

	Territorial	Institutional	Programmatic	Functional	Economic
International				UN level of detail	Aggregate
Public & Parliament	Aggregate	Aggregate	Aggregate	Aggregate	Aggregate
Financial audit		Detailed			Detailed
Performance audit	Aggregate	Aggregate	Aggregate	Aggregate	Aggregate
Finance/Treasury	Semi-aggregate	Semi-aggregate	Semi-aggregate	Semi-aggregate	Semi-aggregate
Line ministries	Detailed	Detailed	Detailed	Detailed	Semi-aggregate
Agencies			Detailed		Detailed

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Financial reporting through the IFMIS (6/9)

To what use?

- Information
  - Expected financial outcome (budget)
  - Actual financial outcome (accounts) for
    - Management, monitoring, audit & evaluation
    - IPSAS-compliant reports
    - Government Finance Statistics
- Control
  - Limits on and follow-up of:
    - Commitments
    - Expenditure
    - Cost
    - Payments
    - Releases
    - Transfers

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Financial reporting through the IFMIS (7/9)

We need a classification structure that permits:
- Preparing comprehensive budget and accounts
  - All sources of funding
  - All levels of government (if required)
- Setting appropriate budget controls
- Preparing different consolidations
  - IPSAS & GFS
- Linking financial and substantive information
  - Inform resource allocation
- Meeting all other management, analytical and control needs
  - Internal management
  - Audit
  - International comparisons
- Easy transition to accruals
- Enabling of additional tools; Cognos, Q&A modules, MS Access, Excel, BI and Data Mining

Financial reporting through the IFMIS (8/9)

**The Chart of Accounts
is a cornerstone in reporting**

Direct attributes   Indirect attributes

Value

Institutional
- Nature of entity
- Level of government
- Territorial

Programmatic — Functional

Source of funds — Nature of transaction

Economic — Cash, non-cash

Counterparty — Other characteristics
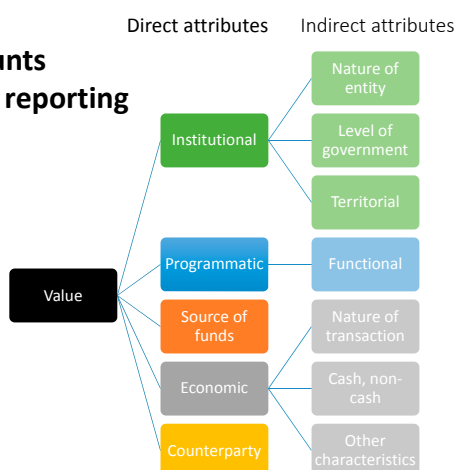
Financial reporting through the IFMIS (9/9)
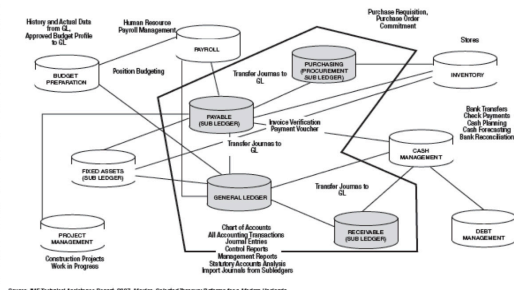
It is not a simple task to implement an IFMIS adressing all challenges!
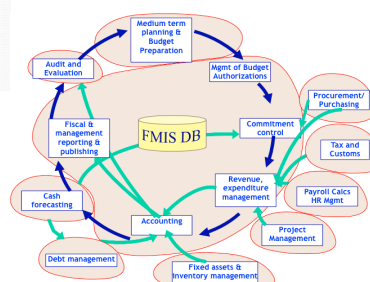
Non-Financial reporting through the IFMIS (1/7)

Program Based Budgeting – A complex undertaking

• Moving from input to output focus – new data requirements!
• Budget realism and predictability
  • Medium-term fiscal framework – resource predictability
  • Robust and credible budget ceilings
  • Supplementaries and virements.
  • Budget release procedures.

• Strengthened planning, budgeting and monitoring procedures
  • Budget preparation calendar
  • Sector strategies and implementation plans
  • Managing public investment commitments
  • Monitoring of budget implementation
  • Capacity management implications

• Management and organisation implications

Non-Financial reporting through the IFMIS (2/7)

PBB and an example of a Program structure
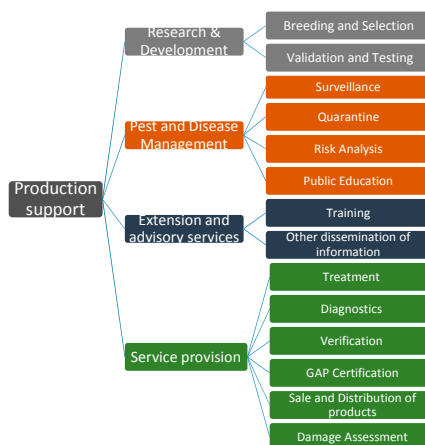
Non-Financial reporting through the IFMIS (3/7)

Substantive information related to program reporting

- Baseline descriptive data

- Outcome and output indicators
  - If necessary multiple indicators to catch the multifaceted nature of programs

- Targets

- Monitoring narrative

Non-Financial reporting through the IFMIS (4/7)

Performance budgeting and accountability (1/2)
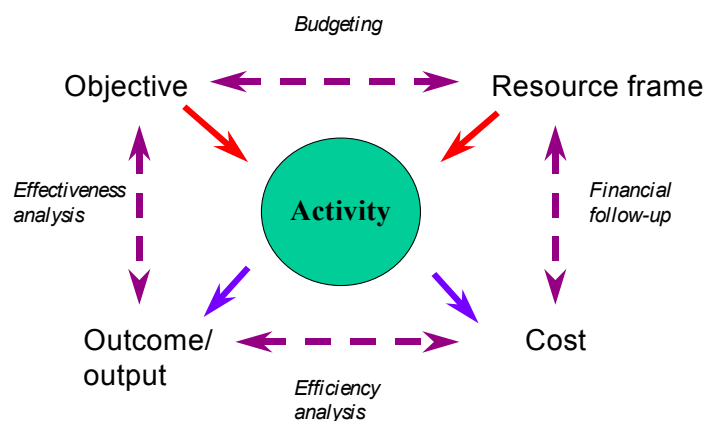
Non-Financial reporting through the IFMIS (5/7)

Performance budgeting and accountability in Zambia (2/2)
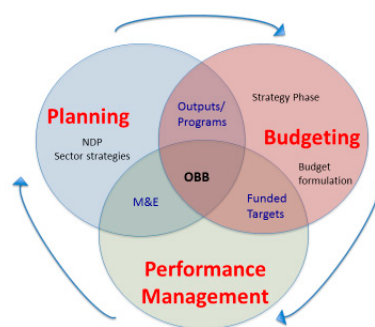
Source: IMF report on Output Based Budgeting in Zambia
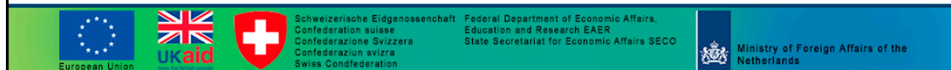
Non-Financial reporting through the IFMIS (6/7)

Statutory reporting (1/2)

- Statutory reporting is the mandatory submission of financial and non-financial information to a government agency by a statutory entity.

- Each industry has its own set of laws and regulations (statues) that mandate reports.

- In many countries, International Financial Reporting Standards (IFRS) has replaced country-specific GAAP for statutory reporting.

- Of particular interest are:
  - Contingent liabilities
  - Loans and guarantees
  - Other balance sheet information, in particular fiscal and other risks

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Non-Financial reporting through the IFMIS (7/7)

Statutory reporting (2/2): Example from New Zealand

- The Ministry of Economic Development imposed statutory financial reporting obligations to secure information to external parties who need an entity's financial statements but are unable to demand them. The MED identified three indicators, (i) **public accountability**, (ii) **economic significance** and, (iii) **separation of owners and management** to determine reporting requirements.

Indicator	Definition	Reporting requirements
Public accountability	Owned or funded directly by the public (e.g. issuers, entities with coercive powers to tax, levy)	• Prepare GPFR • Assurance required • Publish (publically available)
Economic significance	**For-pofit:** - annual revenue >$30m; or total assets >$60m **Not-for-profit:** - annual expenditure >$30m	• Prepare GPFR • Assurance required • Publish (publically available) ** Unless outweighing compliance cost*
Separation	Significant degree of separation between management and owners or members of the entity. The proxy for assessing a significant degree of separation is whether an entity has 10 or more owners.	• Prepare GPFR (may opt out) • Assurance required (may opt out) • Distribute (to owners / members)

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Cash and accruals (1/9)

"There is an urgent need for sound, transparent accounting by all governments. Governments' financial statements should reflect the full economic impact of political decisions."
PwC

pwc

The Economist

"…..many countries do not even know the book value of their assets……Most make do with "cash basis" accounting rather than the "accrual" accounting used in the private sector. This helps obscure weak finances….."
The Economist

"Cash accounting is simply not fit for the 21st century."
Brian Quinn, Director Loan Department, World Bank

THE WORLD BANK

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Cash and accruals (2/9)
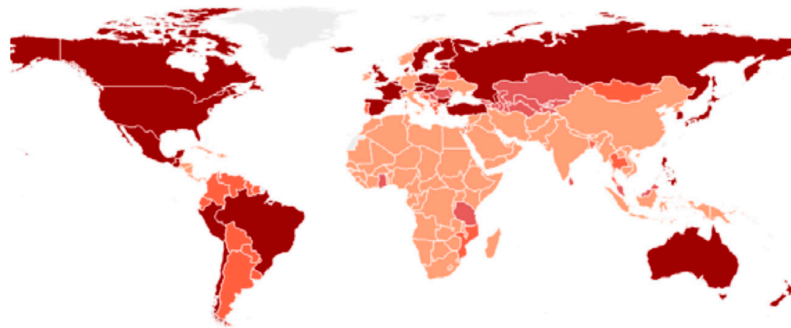
Accounting Basis

Not Available   Modified Cash Basis   Full Accrual Basis

Cash Basis   Modified Accrual Basis

Source: TNM, Implementing Accrual Accounting in the Public Sector, September 2016

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Cash and accruals (3/9)

Government Budgeting, fiscal reporting and accounting

- Budget data – "adequate for our needs"
- Whose needs are "our needs?"

Cash based data inadequate for many (all) needs:
- Intergenerational issues
- Efficient use of assets / tracking government assets
- Long term or real economic costs of policy decisions
- International comparisons
- Easy to manipulate

Cash and accruals (4/9)

Accrual Accounting in the wider Economy

- "Governments around the world require private companies to be transparent about their accounting …….we need to know how well they are performing, what their fiscal position is, whether they are well managed and we cannot tell it without good accounting."
- Ian Ball, Chief Executive Officer, International Federation of Accountants

- Accrual accounting already widely used:
  - Large businesses / multinationals
  - Other businesses
  - State owned enterprises
  - Banks
  - Pension Funds

- National Accounts already typically compiled on an accrual basis

Cash and accruals (5/9)

GFSM 1986

Transactions

| Revenue |
| Expen-diture |
| Cash |

| Debt | Debt | Debt |

GFSM 2001/2014

Transactions

| Revenue |
| Expense |

| | Opening balance | | Other economic flows | Closing balance |

NFA	NFA	NFA	NFA
FA	Cash / Other FA	FA	FA
L	L	L	L

Cash and accruals (6/9)

GFSM 86

GFSM 2001 / 2014

Budgetary Central Government or Functional Basis

General Government

Budgetary Central Government

Local Governments

State Governments

Extra Budgetary Units

Social Security Funds

Cash and accrual accounting (7/9)

GFSM 2001 / 2014: Comprehensive analytical framework
- Important features
  - Covers all stocks & flows, not only cash
  - Flows: transactions & other economic flows
  - Stocks: Full balance sheet
  - Distinguishes between changes in net worth and distribution of net worth
  - Fully integrated system
  - Provides different balancing items for wider range and depth of fiscal analysis
- More reflective of economic reality and aligned with wider economy
- Cash accounting retained within framework

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Cash and accrual accounting (8/9)

Cash accounting	Modified cash accounting	Modified accrual accounting	Accrual accounting
Cash payments and receipts are recorded as they occur.	Cash receipts and disbursements committed in the budget year are recorded and reported until a specified period after year-end	Accrual accounting is used but certain classes of assets (e.g. fixed assets) or liabilities are not recognized.	Transactions and economic events are recorded and reported when they occur, regardless of when cash transactions occur.

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Cash and accrual accounting (9/9)

Compile Full Balance Sheet:
Add data on nonfinancial assets

Estimate Other Economic Flows:
Add data on holding gains/losses and other volume changes

Estimate Non-cash Items:
Add data on grants in kind, accounts receivable/payable, accrued interest, etc.

Compile Financial Balance Sheet:
Add data on stocks of financial assets and liabilities

Improve Coverage:
Expand coverage to include all relevant institutional units and transactions

Adopt New Presentation:
Recast existing data to the standard *GFSM 2001* framework, identify data gaps, and plan to fill gaps

Take Stock:
Review existing source data, improve classifications according to international guidelines, and improve existing recording and compilation methods

I M P R O V E M E N T S

T I M E

Cash Account — Full set of integrated statements

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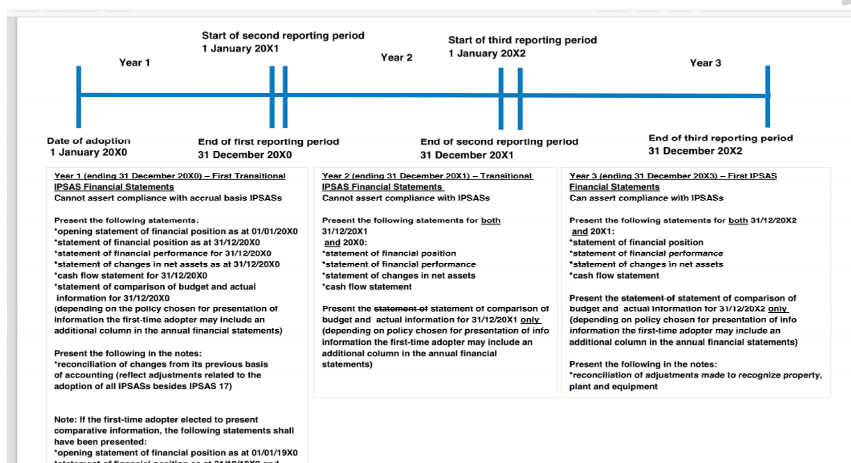

IPSAS and Accruals (1/12)

What does IPSAS implementation entail

- IPSAS are standards for financial statements, including for specific transactions, assets and liabilities:
  - Tax revenues; property, plant and equipment; employee entitlements (incl. pensions); PPPs, government guarantees etc.

- Implementation of IPSAS usually involves
  - GAP analysis - "where we are?" Vs. "where do we wish to be?"
  - Preparing a plan to implement
  - Implementation, incl., change management
  - Preparation of IPSAS compliant financial statements

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IPSAS and Accruals (2/12)

An example: Switzerland

- New Accounting Model introduced 2007
- Based on IPSAS
- Budgeting and accounting both on accrual basis
- Main exceptions to IPSAS
  - Employee pension liabilities not recognized, but disclosed as contingent liabilities
  - Consolidated financial statements of controlled entities: phased approach adopted

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IPSAS and Accruals (3/12)

Switzerland: Financial statement

CHF mn	Financial statements 2008	Financial statements 2009	Financial statements 2010	Financial statements 2011	Financial statements 2012
Statement of financial performance					
Operating revenue	62 149	62 004	62 159	64 319	62 778
Operating expenses	53 931	54 997	56 668	60 727	59 930
Operating result	**8 218**	**7 007**	**5 491**	**3 592**	**2 848**
Financial revenue	888	1 566	415	957	440
Financial expense	4 225	3 469	3 438	3 200	3 101
Financial result	**-3 337**	**-1 903**	**-3 023**	**-2 243**	**-2 661**
Equity interest revenue	1 807	2 179	1 840	1 256	2 228
Equity interest expenses	7	5	95	440	–
Equity interest result	**1 800**	**2 174**	**1 745**	**816**	**2 228**
Surplus or deficit	**6 681**	**7 278**	**4 213**	**2 165**	**2 415**
Statement of financial position					
Current assets	19 278	15 279	16 167	16 589	20 175
Non-current assets	79 474	78 152	81 448	81 095	82 182
Liabilities	143 117	130 469	130 242	127 980	130 210
Net assets/equity	-44 365	-37 038	-32 627	-30 296	-27 853
Cash flow statement					
Cash flows from operating activities	7 899	7 447	6 545	3 491	4 809
Cash flows from investing activities	-5 791	3 200	-1 323	-3 624	-2 573
Cash flows from financing activities	-869	-10 143	-2 161	5	1 532
Total cash flow	**1 239**	**504**	**3 061**	**-128**	**3 768**
Debt					
Gross debt	120 378	108 742	108 279	108 170	109 897
Net debt	98 358	89 070	86 125	86 022	84 661
Staff					
Number of full-time employees (FTE)	46 549	48 833	49 591	49 907	50 686

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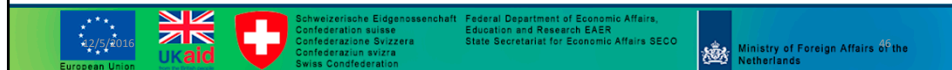
IPSAS and Accruals (4/12)

Some international Lessons Learned (1)

- A few countries have adopted the accrual basis for both budgeting and accounting
  - Australia, Austria, Canada, Denmark, Iceland, New Zealand, Switzerland, UK
- More common - accrual accounting and cash budgeting:
  - France, Finland, Kazakhstan, Sweden, US
  - Important to use accrual information to inform budget and policy decisions
    - Otherwise, can lead to accrual accounts not being taken seriously

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IPSAS and Accruals (5/12)

Some international Lessons Learned (2)

- Financial assets and liabilities may be done in Phase 1, nonfinancial assets in Phase 2
  - Financial assets and liabilities can also be recognized progressively in phases
  - For example, tax revenue recognition may pose some challenges – therefore can defer it to Phase 2
- Consolidated financial statements may be implemented in phases
  - Separate financial statements of central government can be done in Phase 1, partial consolidation can be done in Phase 2, and full consolidated statements can be done in Phase 3
- Pilot implementation with some agencies may be considered
  - Helps identify issues and challenges before launching intro full implementation
- IPSAS based financial statements may initially be produced on a trial basis
  - SAI can review but not audit trial statements;
  - Full audit during a subsequent "official" phase

IPSAS and Accruals (6/12)

Transition path to IPSAS and Accrual accounting and reporting

	Balance Sheet		Operating Statement			Controlled Institutions
	Assets	**Liabilities**	**Revenues**	**Expenses**	**Other Flows**	
Phase 0 Cash Accounting	Cash balances	Debt	Cash receipts	Cash payments	None	Budgetary Central Government
Phase 1 Elementary Accrual Accounting	Trade receivables	Account payables	Accrued trade revenue	Accrued expenses, *excluding depreciation*	Provisions for payables and doubtful receivables (e.g. bad debts)	Central Government
Phase 2 Advanced Accrual Accounting	Other financial assets	Other financial liabilities	Accrued trade revenue	Accrued expenses, *excluding depreciation*	Valuation changes in financial assets and liabilities	General Government
Phase 3 Full Accrual Accounting	Physical and intangible assets; Tax receivables	-	Accrued tax revenue	Accrued expenses including depreciation	Valuation changes in all assets and liabilities	Public Sector

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IPSAS and Accruals (7/12)

IPSAS implementation: Challenges

- Lack of political support
- Skilled staff may be in short supply
- Systems and processes may need to be changed
- Legal and regulatory changes may be necessary
- Implications for the budget process

Each country must carefully consider its own timetable for implementation

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IPSAS and Accruals (8/12)

Political ownership

- Support at highest level of the executive critical for reform
  - Support must be prominent and unambiguous
  - Executive must champion philosophy, reasons, objectives and timetable of change
- Legislative support also essential:
  - Ensure passage of legislation
  - Support reform and use new financial statements to hold executive accountable

IPSAS and Accruals (9/12)

Related reforms

- Accrual Accounting and IPSAS implementation should not be seen as a reform in isolation
- Other reforms such as commit. control and basic cash accounting and budget execution system may be more urgent
- Implications of any planned move to performance budgeting might have to be considered

Careful sequencing is important

IPSAS and Accruals (10/12)

IPSAS provides transition provisions

- Individual IPSASs contain transition provisions
- IPSAS 33 First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs) provides further transition flexibility
- Three Year Transitional Relief Period for the Recognition and/or Measurement of Assets and/or Liabilities

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IPSAS and Accruals (11/12)

Transition at a glance

Start of second reporting period 1 January 20X1

Start of third reporting period 1 January 20X2

Year 1   Year 2   Year 3

Date of adoption 1 January 20X0

End of first reporting period 31 December 20X0

End of second reporting period 31 December 20X1

End of third reporting period 31 December 20X2

Year 1 (ending 31 December 20X0) – First Transitional IPSAS Financial Statements
Cannot assert compliance with accrual basis IPSASs

Present the following statements:
*opening statement of financial position as at 01/01/20X0
*statement of financial position as at 31/12/20X0
*statement of financial performance for 31/12/20X0
*statement of changes in net assets as at 31/12/20X0
*cash flow statement for 31/12/20X0
*statement of comparison of budget and actual information for 31/12/20X0
(depending on the policy chosen for presentation of information the first-time adopter may include an additional column in the annual financial statements)

Present the following in the notes:
*reconciliation of changes from its previous basis of accounting (reflect adjustments related to the adoption of all IPSASs besides IPSAS 17)

Note: If the first-time adopter elected to present comparative information, the following statements shall have been presented:
*opening statement of financial position as at 01/01/19X0
*statement of financial position as at 31/12/19X0 and

Year 2 (ending 31 December 20X1) – Transitional IPSAS Financial Statements
Cannot assert compliance with IPSASs

Present the following statements for <u>both</u> 31/12/20X1
<u>and</u> 20X0:
*statement of financial position
*statement of financial performance
*statement of changes in net assets
*cash flow statement

Present the statement of statement of comparison of budget and actual information for 31/12/20X1 <u>only</u>
(depending on policy chosen for presentation of info information the first-time adopter may include an additional column in the annual financial statements)

Year 3 (ending 31 December 20X3) – First IPSAS Financial Statements
Can assert compliance with IPSASs

Present the following statements for <u>both</u> 31/12/20X2 and 20X1:
*statement of financial position
*statement of financial performance
*statement of changes in net assets
*cash flow statement

Present the statement of statement of comparison of budget and actual information for 31/12/20X2 <u>only</u>
(depending on policy chosen for presentation of info information the first-time adopter may include an additional column in the annual financial statements)

Present the following in the notes:
*reconciliation of adjustments made to recognize property, plant and equipment

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IPSAS and Accruals (12/12)

Implementation - next steps

- Undertaking a scoping study
- Undertaking a detailed gap analysis
- Addressing underlying accounting and reporting issues in existing system
- Establishing required institutional implementation arrangements
- Updating all legal and regulatory frameworks to allow production and auditing of accrual based financial statements
- Engaging dedicated experts
- Reconfiguration of the chart of accounts and IFMIS
- Extensive training

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A Diagnostic Framework to Assess the Capacity of a Government's Financial Management Information System (FMIS) as a Budget Management Tool

Ali Hashim

(Based on a working paper prepared along with Mr. Moritz Piatti - Independent Evaluation Group(IEG) of the World Bank)

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Introduction

- Most countries now have some sort of an automated FMIS. The quality, scope, and coverage of these systems varies across countries;
- Consequently, there is a large variation in their ability to effectively apply controls and manage the budget process;
- Desired improvements in budget management have remained elusive in some cases;
- **A second generation of reforms** may be necessary here.

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FMIS diagnostic Framework

- **The FMIS Diagnostic Framework presented here is intended to identify critical areas in need of attention**
  - Determine first whether the FMISs have the basic design capacity to serve as a good budget management tool;
  - Identify whether the **coverage and scope and usage of a FMIS use in a given country** could have a significant impact.

- **Establishes a linkage between budgetary outcomes and the quality, scope and coverage of FMIS systems** and the extent of the controls exercised by them

- Help create **a road map for future reform.**

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Benefits

- **Interventions can be more targeted** on the identified bottlenecks.
- **More relevant for the achievement of the overall project objectives.**
- It would also mean **better value for money** of project funds.
- Could be used to develop **a better M&E framework to set bench marks and monitor progress**.

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PEFA

- Existing frameworks such as PEFA assessments provide good criteria for assessing the quality of budget management across multiple dimensions

- **However, they do not connect any identified deficiencies to specific features of the FMIS.**

- **Used along with this diagnostic framework, PEFA scores could form a better basis of developing a targeted reform program.**

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Basis

- The Frame work is based on 5 detailed case studies and desk based analyses of other FMIS projects;

- A set of **critical success factors and key failure points** were identified for the entire systems life cycle;

- This has been used to develop a **checklist of functions and features in an FMIS** that were found important in practice for implementing effective budget management and control.

- **PFM/FMIS literature and practitioners also** perceives these functions and features to be relevant for budget management

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Consists of a Check list of functions and features related to:

- **The underlying policy and institutional environment under which the system operates;**
  - The controls prescribed by the legal framework- Organic budget law, Treasury decree;
  - The existence and status of a TSA;
  - The nature of the Budget classification structure and CoA used;

- **The scope and functionality of the system** and the manner in which it incorporates the requirements of the policy framework

- **Its coverage and actual usage at a point in time**

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The set of features are grouped under the following five categories:

1. **The Status and Coverage of the Treasury Single account (TSA);**
2. **The Coverage of the FMIS-** the extent to which Financial resources are transacted through it;
3. **Core System functionality for budget execution** including the controls prescribed by law, the nature of the CoA used and functionality features related to payments and receipts and reporting;
4. **Ancillary features - Non-Core functionality**
5. **Technical aspects**. - The nature and deployment of the underlying technical platform

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Evaluation Questions

- *The diagnostic framework consists of a set of questions under these categories and assigns scores to them depending on their relative importance.*

- *Templates listing the questions and the scores are given at appendixes A–E.*

- *A total score assessment framework is provided in appendix F.*
- *Additional informational items on the technical platform items important for ongoing system maintenance are discussed in appendix G.*

1. TSA - The Treasury Single Account

A comprehensive TSA is a critical enabling condition for a functioning budget execution system.
- Efficient cash management requires that all government moneys are placed in a TSA at the Central Bank (CB).
- This avoids large idle balances in commercial bank accounts outside the purview of the Treasury and MOF control.
- Commercial banks where this money is held can use it to buy government borrowing instruments (such as T-bills) meaning they relend to government its own money at interest.

TSA II - EBFs and Donor Funds

- Ideally EBFs and donor funds are also placed in a TSA and under the purview of the Treasury. **A root branch arrangement with sub accounts**, which hold these funds can be ring-fenced so as to be used only for earmarked purposes.
- As a second best arrangement these funds are banked in the CB, but outside the TSA.
- This would still lower the overdraft limit for government borrowing from the CB.
- Users can have access through zero balance accounts in commercial banks where balances are swept periodically.

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TSA - III

- *The situation that needs to be corrected is where Government funds are banked in commercial bank accounts outside the purview of the Treasury and the MOF which are not zero balance accounts of a main account in the CB .*

- An International Monetary Fund (IMF) guidance note on TSAs makes this quite clear stating that for a TSA to work effectively, accounts should operate on a zero-balance basis, and balances need to be swept into the CB unconditionally (**Pattanayak and Fainboim 2011).**

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TSA – Scoring scheme

A starting score of 10 points is given. Subsequently, two points are deducted if:

- (i) **Project advances** are given out to line ministries at the start of the year and are banked in commercial banks owned by line agencies, not linked to the TSA via a ZBA arrangement;
- (ii**) Internally generated funds (IGFs)** are banked in commercial banks owned by the line agencies not linked to the TSA via a ZBA;
- (iii) **Extra-budgetary funds (EBFs)** exist and are banked in commercial banks not linked to the TSA/CB;
- (iv) **Donor funds** are banked in special accounts in commercial banks not linked to the TSA/CB via a ZBA.

TSA – Scoring scheme II

- If the magnitude of these funds is not high compared with the total budget, then a deduction of only 1 point is made.
- The scoring system gives higher marks for cases where these funds are banked in the CB and are part of the TSA compared to the situation where they are banked in the CB but are NOT part of the TSA.
- **A maximum score of 10 is possible, which is a proxy for all government financial resources banked in the CB or TSA.**
- Evaluation Questions and scores are outlined in Appendix A

2- FMIS Coverage

- **This dimension identifies which payments and receipt transactions are routed through the FMIS and which bank accounts (where government financial resources are banked) are covered by the FMIS.**

- Transactions can only be considered as being routed through the system if they are subjected to **system ex-ante budgetary controls.**

- Posting transactions into the system after they have occurred only gives the illusion of comprehensiveness, while integrity cannot be ensured and controls are not applied.
  - Benefits related to commitment and expenditure controls would apply only to funds covered by the FMIS
  - Partial budget and execution reports due to incomplete coverage would only give a partial picture.

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FMIS Coverage III

- **Project advances and IGFs** are a part of the government's own budgetary resources and should be transacted through the FMIS (banked in the TSA and therefore be subject to budgetary controls).

- Transactions related to **EBFs and donor funds** can also be routed through the FMIS even if they are not part of the TSA
  - These accounts can be defined in the FMIS and the agencies that are responsible for transacting them can use the same system as is used for government funds.

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FMIS Coverage - Scoring scheme

- *A maximum score of 25 is possible*, which is a proxy for all government financial resources routed through the FMIS.

- **MOF Transactions:** Deductions of up to 4 points are made if transactions handled by the central Ministry of Finance (MOF), such as debt servicing, fiscal transfers, and subsidies to state-owned enterprises are not routed through the system and are carried out directly by the MOF by communicating with the CB.

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FMIS Coverage-Scoring scheme II

- **Geographical Coverage**: A deduction of 4 points is made if the system is implemented only at the central level. A deduction of only 2 points is made if it has also been implemented at the provincial level. No deductions are made if it has been implemented countrywide.

- **Recurrent Budget – Program advances** : A deduction is made depending on the extent to which transactions against the recurrent budget are processed through the FMIS. If they are not, a deduction of up to 4 points is made, with lower deductions depending on the amount of the transactions compared with the total budget.

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FMIS Coverage Scoring scheme III

- **Capital Budget- Advances:** A deduction is made if transactions against the capital budget advances are not processed through the FMIS. If they are not, a deduction of up to 5 points is made, with lower deductions depending on the magnitude of the advances compared with the total budget.

- I**GFs :** A deduction of up to 4 points is made if transactions against IGFs are not processed through the FMIS. Lower deductions are made depending on the magnitude of the IGFs compared with the total budget.

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FMIS Coverage Scoring scheme III

- **EBFs:** A deduction of up to 4 points is made if transactions against EBFs are not processed through the FMIS. Lower deductions are made depending on the magnitude of the EBFs compared with the total budget.

- **Donor funds: A** deduction of up to 4 points is made if transactions against donor funds are processed through the FMIS. Lower deductions are made depending on the magnitude of the donor funds compared with the total budget.

- **Evaluation Questions and scores are outlined in Appendix B**

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3- Core Functionality of the FMIS

- This category attempts to establish the quality of the core functionality provided by the system and the controls it incorporates;

- What is the ***budget classification structure (BCS)*** in use, and whether is it compliant with IMF's Government Finance Statistics (GFS)?

- Is the ***chart of accounts (COA) for budgeting the same as that for accounting***, and **is it the same across various levels of government?**

- How are the initial budget and ***in-year budget transactions*** loaded in the system?

Core Functionality of the FMIS II

- How has ***commitment control*** been implemented, and is it is applied to all transactions?

- Is commitment control integrated with payment processing?

- What are the ***controls exercised for the various types of payments?***

- Are all stages of the transaction, including a PO, contract or GRN, and invoice entered into the system?

- How are payroll-related payments handled –do they include a budget check?

- How are **tax and nontax receipts data** recorded in the system?

Core Functionality III

- What is the *type of interface used with the banking system?*
- What is the *quality of fiscal and financial reporting* available from the system?
- *What is the basis of Accounting?*
- *What is the Budgeting Modality?*
- *A maximum score of 40 points is possible as a proxy for all core functionality requirements to be in place.*
- Evaluation Questions and scores are outlined in Appendix C

4- Non Core Functionality

- This category assesses ancillary features related to FMIS functionality; such as the nature of the **budget preparation system**, whether an **MTEF capability** exists and is integrated with the budget preparation module,
- The capacity to perform **establishment control** prior to making payroll payments,
- The nature of **the debt management system** in place and is interface with the FMIS
- Whether a **fixed-assets management** module is part of the FMIS in use,
- Whether **oversight institutions have independent access** to the FMIS transaction databases.
- **Points are given for each evaluation question. A maximum of 15 points is possible.**
- **Evaluation Questions and scores are outlined in Appendix D**

5- Technical Aspects

- This category covers issues such as:
  - The nature of technology used, whether the FMIS is **custom developed or uses a commercial off-the-shelf application software** package,
  - The scope of the functionality provided by the software, and the FMIS and its deployment architecture.
- A maximum score of 10 points is possible
- **Evaluation Questions and scores are outlined in Appendix E**

The diagnostic framework also contains questions regarding some informational items

- The nature of the Technical Platform **used- COTS or locally developed software;**
- The number of users connected to the system;
- The quality of the telecommunications network;
- Costs incurred for setting up the system and its ongoing maintenance;
- Numbers of Technical staff and budgetary resources available for operations and maintenance
- *These aspects have been found to be important for the ongoing operations, maintenance and sustainability of the FMIS.*
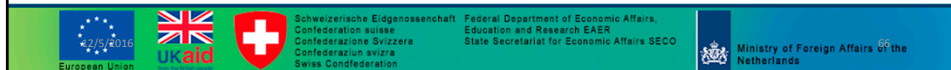
Total System Score

- A total score is derived from aggregating the various sub-dimensions, **with a maximum score of 100 points being possible.**

- **Not all of features have the same importance**

- Dimensions were weighted according to how relevant the literature perceives them for budget management.

- The **scoring scheme allocates more points for the critical elements of the policy, institutional, and systems elements required for effective budget management.**

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Limitations – A word of caution

- The total score *hides important granularity*, weighting can be perceived as subjective, and scores across dimensions are not perfectly interchangeable *(meaning that one could have two systems with the same score that are different).*

- In this study, enumeration of the total system score is only used for plotting results against PEFA scores to assess whether the diagnostic framework can serve as a proxy for FMIS contribution to budget management.

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A Preliminary Assessment Based on the Methodology

- The methodology described above has been applied to assess the strength of the FMIS in terms of its effectiveness for budget management and control as they exist in 21 countries.

- Data for the assessment of FMIS features and functions to be scored was obtained with the assistance of World Bank staff and country MOF and treasury staff.

A Preliminary Assessment Based on the Methodology II

- To determine the specific areas of strengths and weaknesses in a given country, it is necessary to look at the scores obtained for the various **categories and sub categori**es used in the scoring template;

- A comparison across the **broad categories** is most useful for comparing relative strengths and weaknesses of the FMIS systems across countries and for determining the areas in which a country or group of countries has particular weaknesses and further work is required;

Figure 1: TSA Coverage
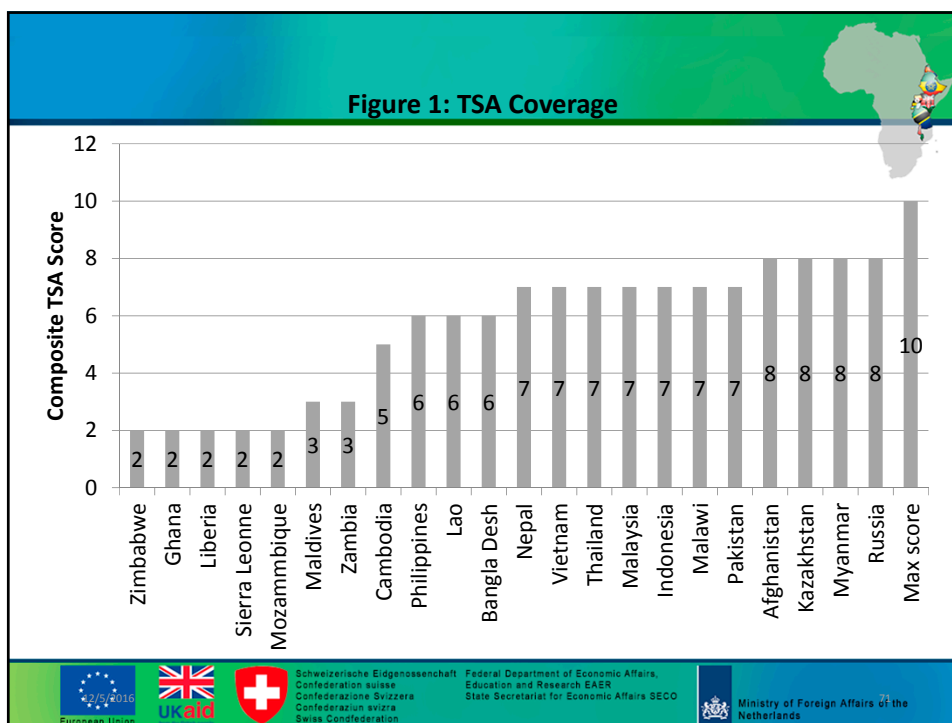
TSA Coverage- Figure 1

- The TSA composite scores are provided in figure 1.

- In several African countries, including Liberia, Zambia, Sierra Leone, and Ghana, the coverage of the TSA is very low.

- Although a TSA has been established, funds are transferred **to line agency advance accounts** in commercial banks under the control of line ministries which are not linked to the TSA by zero-balance clearing arrangements.

TSA Coverage- Figure 1 continued

- **Large EBFs exist** (such as road funds) that are banked outside of the central bank and outside the control of the central treasury.
- Line agencies are allowed to bank **IGFs** in commercial banks under their own control and these are not linked to the TSA.
- **Donors' funds** can constitute a large share of the total government financing envelope and are typically banked in special accounts held in commercial banks not linked to the TSA via a ZBA.
- Together, these amounts outside the TSA can become quite large and, in effect, represent financial resources over which the MOF has no control.

TSA Coverage- Figure 1- continued

- **In South Asian countries** such as Pakistan, Myanmar, and Bangladesh, this is less of a problem.

- However, donor funds in these countries are also usually banked outside the central bank.

Figure 2: FMIS Coverage
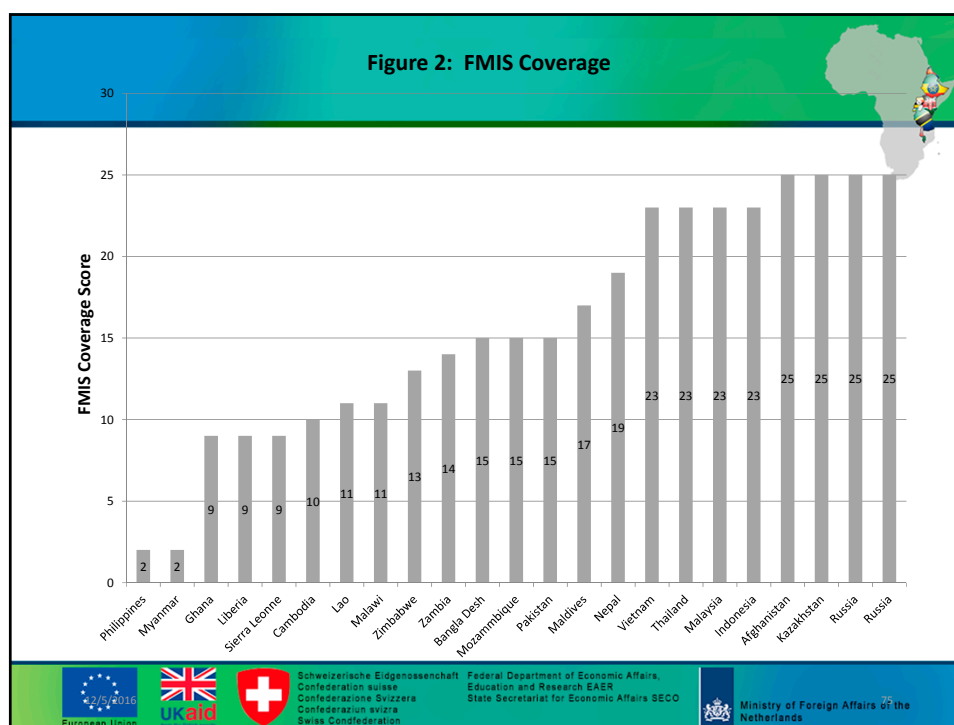
FMIS Coverage – Figure 2

- Figure 2 shows that the coverage of the FMIS is very low in several countries.
- For countries, such as the Philippines and Myanmar, where an automated budget execution system is still to be established the low coverage is expected.
- However, this low coverage is also seen for several other African countries where costly FMIS projects have been implemented over long periods of time. **Prominent among these are Ghana, Zambia, Malawi, Sierra Leone, and Liberia**.
- The low scores here reflect the fact that transactions related to advance accounts, IGFs, EBFs, and donor funds, which constitute a large percentage of the total government resources for these countries, are not routed through the FMIS.

FMIS Coverage – Figure 2 continued

- It is also noted that here the core functionality score of the system that determines its capacity for budget execution and control, as shown in figure 3 is quite high, and the technology used is state of the art, as shown in figure 4.
- Here the low coverage of the FMIS means that a sophisticated system is in place, but only a small percentage of the transactions related to government financial resources are being channeled through it and subjected to its controls;
- Therefore, to this extent, the investment is not being properly used.

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FMIS Coverage – Figure 2 continued

- The **relatively low scores for Pakistan** reflect the fact that large sections of the economy, such as defense, railways, and departmentalized accounting agencies, do not use the system for ex ante control of transactions.
- Further, the MOF generates transactions related to debt servicing and subsidies (for example, to the power sector) that amount to billions of US dollars and then instructs the central bank to pay directly without these transactions passing through the FMIS prior to payment.
- **In the case of Maldives**, the system is operational only at the center.

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FMIS Coverage – Figure 2 continued

- **In countries with low coverage the overall fiscal management reports and statutory financial statements produced by the system are not complete.**

- Various additions from manual systems need to be made before a complete countrywide picture is obtained;

- Therefore, the focus of the reform in these countries should be to close the gaps in coverage instead of putting even more money into even more expensive technological investments, as is being planned for in Zambia and Malawi, among others.

Figure 3: CORE SYSTEM FUNCTIONALITY
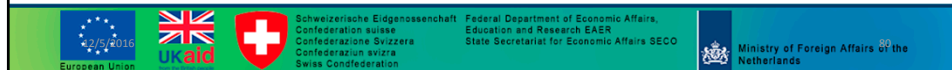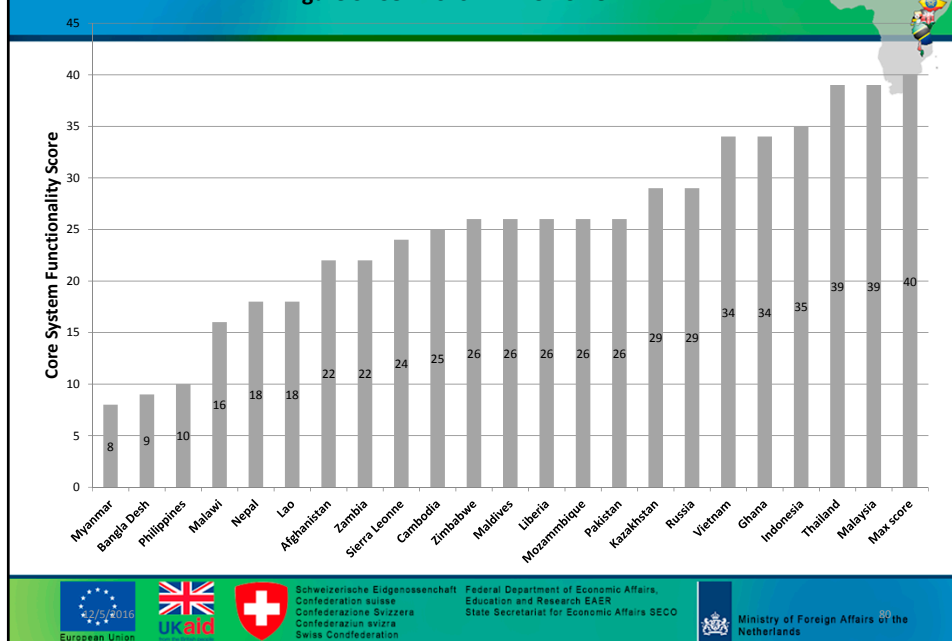
Core Functionality of the FMIS Figure 3

- This category tries to assess the core functionality and the controls incorporated in the system for budget execution.
- For Philippines and Myanmar the low functionality is understandable since there is no effective FMIS - budget execution system in place.
- Bangladesh gets a low score because the system in place does not integrate budget data with budget execution data and does not carry out an ex ante check on budget **availability and thus lacks critical controls.**
- The Lao People's Democratic Republic and Nepal have low scores on account of the fact that the **systems in use are rudimentary, custom-developed systems that lack full functionality** (for example, there is no commitment control).
- The reform programs in these countries should therefore focus on enhancing the FMIS functionality and its controls.

Figure 4: NON- CORE FUNCTIONALITY
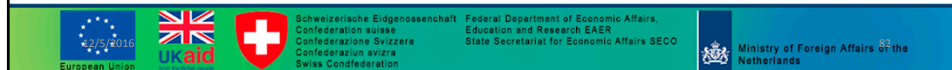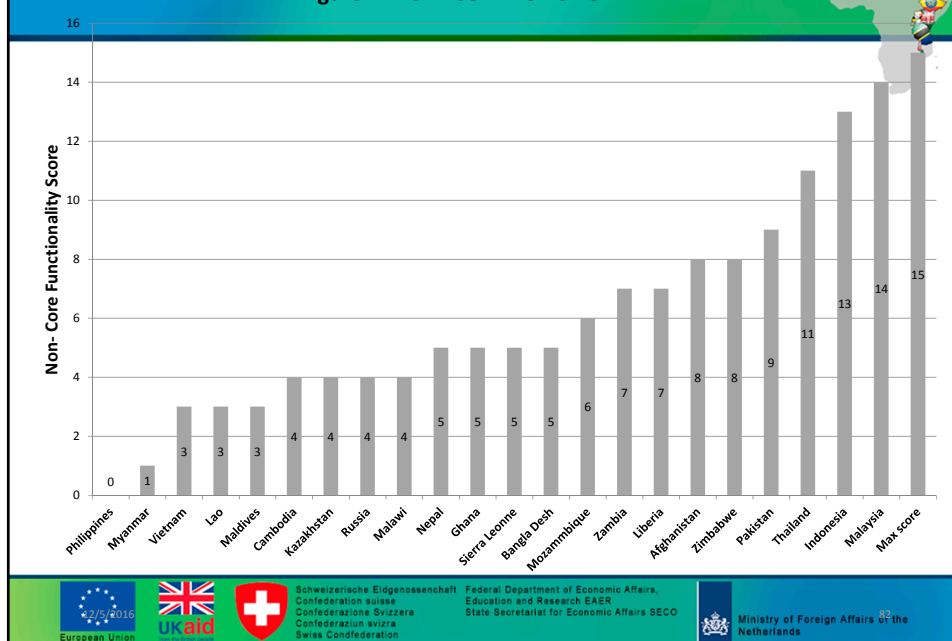
4- Non –Core functionality Figure 4

- A notable point is that some countries with high scores in core system functionality such as Russia, Kazakhstan, and Vietnam received low scores for ancillary features.
- In these cases the core functionality required for budget execution has been established and the TSA and FMIS coverage is fairly comprehensive.
- However, subsidiary systems (such as a budget preparation system integrated with the budget execution system and a centralized payroll system) have been given lower priority and are not in place.
- Here the reform program needs to focus on these additional modules

Figure 5 : TECHNICAL ASPECTS

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Figure 6: Total Systems Strength (TSS)

Total Systems strength Score

Philippines 18, Myanmar 22, Bangla Desh 38, Malawi 43, Lao 45, Sierra Leonne 47, Cambodia 51, Liberia 52, Zambia 54, Nepal 55, Maldives 57, Mozambique 57, Zimbabwe 58, Ghana 59, Pakistan 66, Afghanistan 71, Kazakhstan 74, Russia 75, Vietnam 75, Indonesia 88, Thailand 90, Malaysia 92, Max score 100

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Overall Assessment

- **The attached Table summarizes the scores against the five dimensions** discussed above: (i) TSA), (ii) FMIS coverage, (iii) Core functionality of FMIS, (iv) ancillary features, and (v) technical aspects.

- **Traffic lights have been used to visualize the urgency of reforms** in these dimensions, and reflect progress on the overall ability of FMIS to serve as an adequate budget management tool.

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Country	TSA Status	IFMIS Coverage	*CORE SYSTEM FUNCTIONALITY	NON CORE FUNCTIONALITY	TECHNICAL ASPECTS	System Strength /Total Score
Max score	10	25	40	15	10	100
Afghanistan	8	25	22	8	8	71
Bangla Desh	6	15	9	5	3	38
Cambodia	5	10	25	4	7	51
Ghana	2	9	34	5	9	59
Indonesia	7	23	35	13	10	88
Kazakhstan	8	25	29	4	8	74
Lao	6	11	18	3	7	45
Liberia	2	9	26	7	8	52
Malawi	7	11	16	4	5	43
Malaysia	7	23	39	14	9	92
Maldives	3	17	26	3	8	57
Mozammbique	2	15	26	6	8	57
Myanmar	8	2	8	1	3	22
Nepal	7	19	18	5	6	55
Pakistan	7	15	26	9	9	66
Philippines	6	2	10	0	0	18
Russia	8	25	29	4	9	75
Sierra Leonne	2	9	24	5	7	47
Thailand	7	23	39	11	10	90
Vietnam	7	23	34	3	8	75
Zambia	3	14	22	7	8	54
Zimbabwe	2	13	26	8	9	58

Correlation with Other Budget Management Indexes

- To assess whether the system strength as calculated above can be used as a valid indicator to assess its capacity for effective budget management, the TSS scores for several countries have been compared with the corresponding PEFA scores for these countries.

- For this purpose, the PEFA scores used are the latest available from the PEFA site, and these scores have been converted to a numerical scale using the conversion scheme A = 4, B = 3, C = 2, and D = 1.

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Figure 7 : Scatter Plot of PEFA Average Score and Total System Strength Score
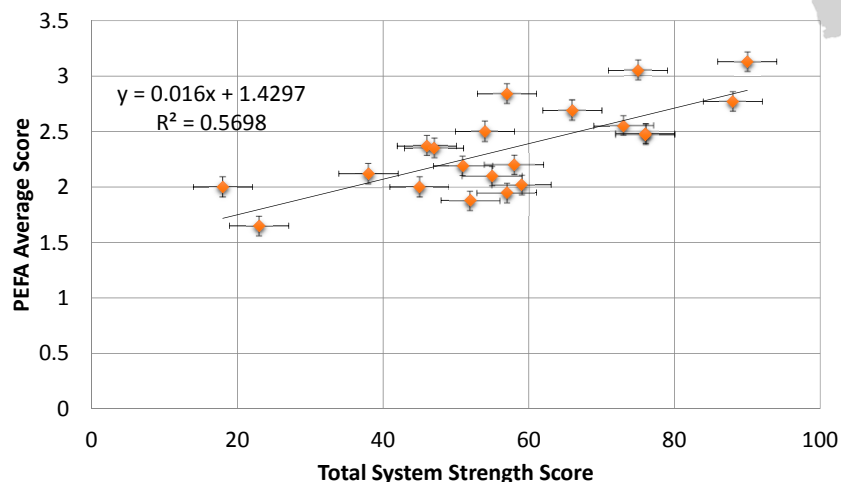
$$y = 0.016x + 1.4297$$
$$R^2 = 0.5698$$

PEFA Average Score (y-axis: 0 to 3.5)
Total System Strength Score (x-axis: 0 to 100)

Correlation of the Total system score with PEFA Averages

- The scatter diagram in figure 7 plots the PEFA scores for the countries included in the survey against the corresponding TSS scores.
- **This diagram indicates that there is a fairly high correlation between the TSS score and the PEFA average value for these countries.**
- It is observed that countries that have a comprehensive TSA, a standardized BCS and COA, and a good-quality FMIS implemented with high coverage along with its controls as reflected by a high TSS score do have significantly higher PEFA scores.

It is necessary to suppress the scatter in the diagram because part of the variation may be due to inaccuracies in the indexes.

- To do this, the data have been divided into three almost equal groups:
  - (i) countries with the lowest scores,
  - (ii) countries with the middle scores, and
  - (iii) countries with the highest scores.
- The system score values and the PEFA values have been averaged for these three groups.
- The averaged PEFA score values have then been plotted against the correspondingly averaged System score values.
- This is shown in figure 8.

Figure 8: Countries Sorted into Three Groups according to Systems Strength Scores

$y = 0.0165x + 1.4049$
$R^2 = 0.9161$

PEFA Average Score

Total System Strength Score
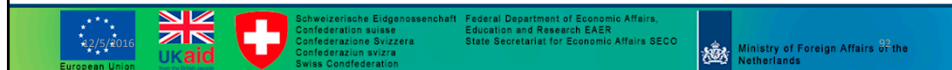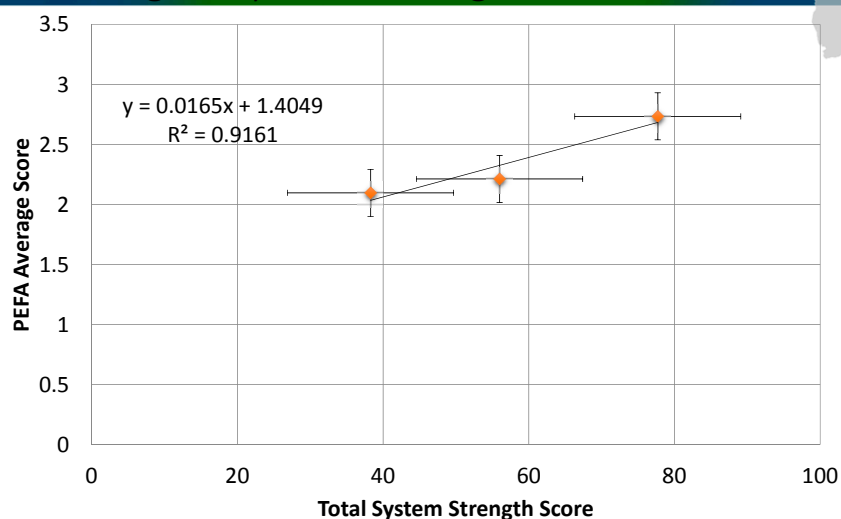
Figure 8: Countries Sorted into Three Groups on Systems Strength Scores

- Figure 8 shows that there is indeed a very strong correlation between the systems scores and the averaged PEFA values.
- To this extent, figure 8 also validates the fact that the systems score calculated as above can be used as a fairly good indicator of the quality of the FMIS as a tool for budget management as implemented in a given country. It shows that countries with a strong FMIS do have significantly higher PEFA scores.
- However, it is noted that improvements in the PEFA score are relatively modest, ranging from 2.05 to 2.65, which represents a move from an overall C score to an overall C+ score.
- **This emphasizes that FMIS is a necessary but not a sufficient condition for good budget management.**

Figure 9: Countries Sorted into Three Groups according to PEFA scores

$y = 32.735x - 19.533$
$R^2 = 0.9999$
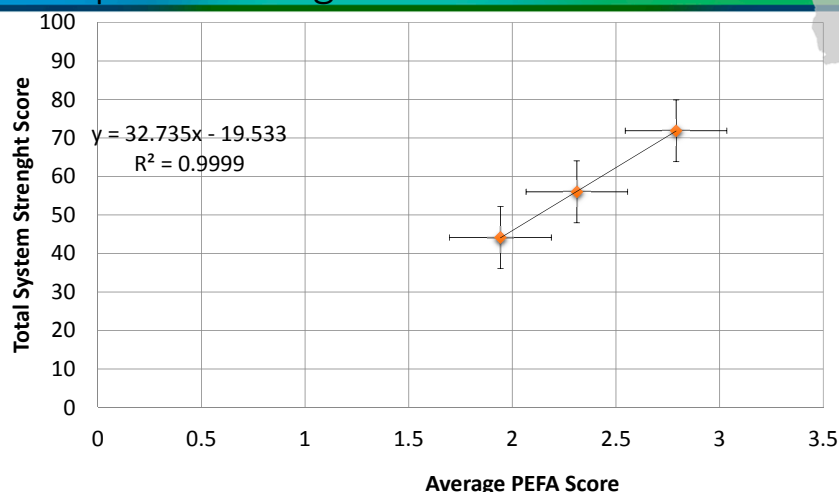
Figure 9: Countries Sorted into Three Groups on PEFA scores

- The critical requirement of a good FMIS for even a modest improvement in the PEFA scores is shown by figure 9 in which the TSS scores are plotted against the PEFA scores.

- This diagram implies that a steep improvement in FMIS strength would be required (from 44 to 72) for even a modest improvement (1.9 to 2.8) in PEFA average scores for a country.

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Sensitivity Analysis

- An extensive sensitivity analysis was carried out to test whether :
  - (a) The correlation observed is merely a spurious artifact of the methodology employed and;
  - (b)The extent to which it was dependent on the relative weights of the scores for the five categories used.
  - Results are given at Appendix H.
  - The Sensitivity analysis eliminated the possibility of a spurious correlation.
  - It also showed that correlation coefficient between PEFA and the system strength is not excessively sensitive to the relative weights assigned to the various categories in the calculation of the strength.

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Concluding Remarks

- **A fully functional FMIS from a technical stand point alone is not a sufficient condition for it to serve as a good budget management tool.**

- Some countries with systems with good scores in functionality and technical aspects continue to have mediocre overall rating due to weaknesses in the underlying policy environment, or due to its coverage and the application of its controls.

- Here it will be useful to first carry out a diagnostic of the existing systems and their usage to highlight areas of deficiency and develop a more targeted program for further improvement.

- The FMIS Diagnostic tool presented here can be used for this purpose

Thank You
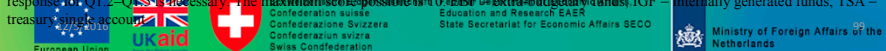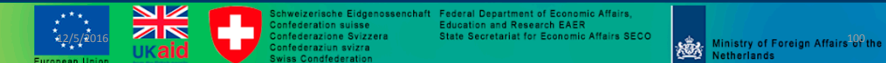
Appendix A: TSA Scoring Scheme

Evaluation questions	Response	Score	Actual
Q1.1. A TSA been established, and government funds are deposited in a consolidated fund or control account at the CB.	Yes	10	
	No	0	
Q1.2. Large project or program advances given out to line ministries are banked outside of the TSA.	Yes	−2	
	No	0	
Q1.3. Large EBFs are banked outside the CB and TSA. Note: If they are banked in the CB but are not part of the TSA a deduction of only 1 is made.	Yes	−2	
	No	0	
Q1.4. Large IGFs exist and are banked outside the CB and TSA.	Yes	−2	
	No	0	
Q1.5. Large amounts of donor funds are banked outside CB or TSA. Note: If they are banked in the CB but are not part of the TSA a deduction of only 1 is made.	Yes	−2	
	No	0	
Max TSA score		10	

Note: If a TSA has been established, a score of 10 is given. Questions Q1.2–Q1.5 assess the comprehensiveness of the TSA, and points are deducted for potential leakages. If advances, EBFs, IGFs, or donor funds are not banked in bank accounts linked to the TSA but the magnitude of these funds is not high compared with the total budget, then a deduction of only 1 point is made. If there is no TSA, 0 points are given and no response for Q1.2–Q1.5 is necessary. The maximum score possible is 10. CB = central bank; EBF = extra-budgetary funds; IGF = internally generated funds; TSA = treasury single account.

Appendix B: FMIS Coverage Scoring Scheme

Category	Evaluation questions	Response	Score	Actual
	Q2.1. An FMIS has been established.	An FMIS has been established, and government funds are routed through it.	25	
		There is no FMIS in place.	0	
Coverage of payments handled by the MOF	**Q2.2.** Are debt service payments included?	Debt service payments are sent directly to the CB and then posted ex post in the accounting system.	−2	
		Debt service payments are routed through FMIS and subject to ex ante budget control.	0	
	Q2.3. Are fiscal transfers or subsidies included?	Fiscal transfers, subsidies, or transfers to state-owned enterprises are not routed through the FMIS. The MOF directs the CB to make payments directly. Transactions may be posted ex post in the system.	−2	
		Transactions are routed through FMIS and are subject to budgetary control.	0	
Geographical coverage	**Q2.4.** What is the geographical coverage?	It pertains to line ministries and spending units at central levels only.	−4	
		It pertains to the center and provinces.	−2	
		It pertains to the whole country (that is, center, provinces, and districts).	0	

	Q2.5.	**Is the recurrent budget processed through the FMIS?**	**No**	**−4**	
			Yes	0	
Coverage of financing sources	Q2.6.	Are the capital budget or project advances to line ministries processed through the FMIS?	No	−5	
			Yes	0	
	Q2.7.	Are EBFs processed through the FMIS?	No	−2	
			Yes	0	
	Q2.8.	Are IGFs processed through the FMIS?	No	−2	
			Yes	0	
	Q2.9.	If amounts of locally denominated donor funds are significant, are they processed through the FMIS?	No	−4	
			Yes	0	
		Max FMIS coverage score		25	

Note: If an FMIS has been implemented, a basis score of 25 is given. Questions Q2.2–Q2.9 assess the coverage of the FMIS, and points are deducted for financing streams made outside. If there is no FMIS, 0 points are given, and no responses for Q2.2–Q2.9 are necessary. The maximum score possible is 25. EBF = extra-budgetary funds; FMIS = Financial Management Information System; FMIS = Integrated Financial Management Information System; IGF = internally generated funds; MOF = Ministry of Finance

Appendix C. Core Functionality Scoring Scheme

Category	Evaluation questions		Response	Score	Actual
Budget classification	Q3.1.	Is the classification GFS compliant?	The BCS is not GFS compliant.	0	
			A basic GFS-compliant BCS with function, organization, and economic classification segments is used.	1	
			A comprehensive BCS with capacity to also monitor expenditures on projects and programs is in use.	2	
	Q3.2.	Are budget and accounting data integrated?	The economic classification segment of the BCS is not a subset of the COA.	0	
			The economic classification segment of the BCS is a subset of the COA.	3	
	Q3.3.	Is there uniformity of budget classification?	The BCS and the COA are not the same for all levels of government.	0	
			The BCS and the COA are the same for all levels of government.	2	

	Q3.4.	**Is the budget load integrated?**	**The treasury or MOF loads the initial approved budget in the system.**	**1**	
			A budget preparation or compilation system is in place and integrated with the treasury system. After the budget is finalized, it is available to the core treasury system to post transactions; no separate load is required.	2	
Budget transactions	Q3.5.	How are in-year budget transactions (for example, apportionments, allotments, virements, and fund releases) managed?	The treasury or MOF enters transactions in the system.	1	
			Line ministry budget administrators are directly connected to the system and enter transactions in the system.	3	
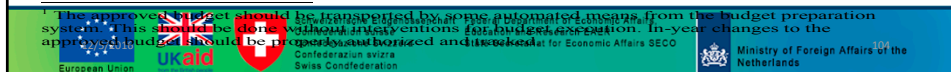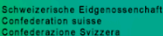
The approved budget should be transported by some automated means, from the budget preparation system. This should be done without interventions for budget execution. In-year changes to the approved budget should be properly authorized and transacted.

	Q3.6.	**How is commitment control practiced?**	**No commitment control is practiced.**	**0**
Commitment management			Selective commitment recording is in place *separately* for major contracts or for selective line items, but payment control against these commitments is not automatic.	1
			Selective commitment recording is in place in FMIS and is also used for payment control. The treasury loads commitments transactions in the system.	2
			Comprehensive commitment control is in place.	3
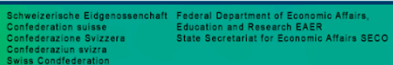
	Q3.7.	**How are goods-and-services-related payments managed?**	**The system does not carry approved budget or released budget (warrant) data. There is no automatic ex ante budget and warrant control.**	**−5**
Payment management			The system has approved budget and released budget data and uses these to control payments.	1
	Q3.8.	Is there full transaction coverage?	Only payment requests based on invoices are entered in the system.	1
			There is full P2P transaction coverage at all stages of the transaction, including a PO, contract or GRN, and invoice. All are entered in the system.	3
	Q3.9.	How are payroll-related payments handled?	Payment requests from individual SUs are based on a calculated payroll sent to the treasury; the treasury then enters the payment request in the system. The system checks against the relevant budget head for adequacy of funds and releases for payment (budget control is implemented at the aggregate level by SU).	1
			A central payroll calculation system is in place. The payroll payment file is sent to the treasury, and payments are made through the treasury or FMIS system. Same budget check as above.	3

	Q3.10.	Are nontax receipts routed through the FMIS?	Nontax receipts are collected by a separate system and deposited in the TSA. The treasury gets information on nontax receipts through the banking interface-reconciliation system.	1	
Receipts management			Most nontax receipts are routed through the FMIS.	2	
	Q3.11.	How are taxes and duties managed?	Tax and customs receipts are deposited in bank accounts controlled by the customs and tax department and are periodically deposited in the TSA. The treasury gets information via the banking interface-reconciliation system.	1	
			Tax and customs receipts are deposited in bank accounts controlled by the treasury. The treasury or TSA bank informs the tax and customs departments of details of receipts.	2	

	Q3.12.	How are payment transactions routed to the TSA?	Payment transactions from FMIS are sent to the TSA bank manually or via a file-based interface.	0	
Interface with banking system			Payment transactions from FMIS are routed to the TSA bank via an automated system (for example, Swift).	2	
	Q3.13.	How are receipts sent to the FMIS?	Receipt transactions from the TSA bank or fiscal agent are sent to the FMIS via a separate file or in the form of paper-based statements.	0	
			Receipt transactions from the TSA bank or fiscal agent are sent to the FMIS via an automated banking interface.	2	
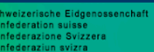
	Q3.14.	**What is the adequacy of**	**The MOF relies on reports from line agencies, which are**	**0**	
Fiscal reporting		**fiscal reporting?**	**submitted late and cannot be checked for accuracy.**		
			The MOF gets some information from the treasury or FMIS on the status of budget execution for payments and receipts that are routed through the treasury.	1	
			The MOF gets fairly comprehensive information on the status of budget execution, since most central budget transactions are routed through treasury.	2	
			The MOF or treasury has complete and timely information on all budget receipts and expenditures. A comprehensive set of fiscal or BER reports is produced by the treasury for the MOF.	3	

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	Q3.15.	**What is the basis of accounting?**	**Cash**	**1**	
Basis of accounting			Modified cash	2	
			Accrual	3	
Advanced budgeting features	**Q3.16.**	What is the budgeting modality?	Line item	1	
			Program based	2	
			Performance criteria are introduced and monitored along with costs.	3	
	Max core functionality score			40	

Note: Scores of individual questions are simply added up. The maximum score possible is 40. BCS = budget classification system; BER = budget execution reports; COA = chart of accounts EBF = extra-budgetary funds; FMIS = Financial Management Information System; GFS = government financial statistics; GRN = goods received note; IGF = internally generated funds; MOF = Ministry of Finance; P2P = procure to purchase; PO = purchase order; SU = spending unit; TSA = treasury single account.

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Appendix D. Ancillary Features Scoring Scheme

		Evaluation questions	Response	Score	Actual
Budget preparation	**Q4.1.**	How is the budget compiled and prepared?	Manually	0	
			Partly or fully automated but not integrated with the treasury system	1	
			Automated and integrated with the treasury system	2	
			Full budget preparation, including calculation of the costs of programs and projects	3	
	Q4.2.	What is the MTEF capability?	Operated separately from the budget preparation system	1	
			Included in the budget preparation system	3	

Payment control	Q4.3.	**How is establishment control integrated with payment control?**	**No establishment control**	**0**	
			Ministry of Public Service or the treasury checks availability of establishment (posts) off-line before running payroll	2	
			Integrated with the treasury payments system; prior to the payroll run, the Ministry of Public Service or the treasury checks for availability of approved posts from the approved establishment list online. In this case the budget check is both the aggregate budget of the SU and the establishment register to see whether the person being paid is occupying an approved slot. This reduces the risk of payment to ghost workers.	4	
Debt management	Q4.4.	How is debt management handled?	Manually	0	
			Automated but not interfaced with the treasury system.	1	
			Automated and integrated with the treasury system.	2	

Fixed assets	Q4.5.	**How are fixed assets managed?**	**Manually**	**0**	
			Automated and integrated with the treasury system	1	
Auditing	**Q4.6.**	How is the auditing function accommodated?	Not interfaced.	0	
			Audit department has access to treasury databases	3	
		Max score ancillary features		15	

Note: MTEF = Medium-Term Expenditure Framework.

Appendix E. Technical Aspects Scoring Scheme

Evaluation Questions		Response	Score	Actual
Q5.1.	What is the information systems support?	No information systems support	0	
		Rudimentary and partially manual information systems assist the treasury in distributing limits and warrants and controlling payments, and a patchwork of systems that are not connected to each other is in use.	1	
		A countrywide, online, custom-developed *basic* treasury system is in use, which enables budget availability checks and warrant control and allows the MOF or treasury to practice fiscal control.	2	
		A fully functioning treasury system with capacity for budget management, commitment management, accounts payable, accounts receivable, general ledger, purchasing, fixed assets, and fiscal reporting is in place, and the system has the capacity to use accrual accounting.	3	
Q5.2.	What is the systems architecture?	None	0	
		Distributed architecture	1	
		Partially distributed architecture	2	
		Centralized architecture	3	
Q5.3.	What is the systems deployment modality?	Treasury centered	1	
		Treasury and line ministries and budget administrators are directly connected to the system.	2	
		Budget administrators, line ministries, spending units, and treasury offices are connected, *or* line ministries and SUs have access via a web portal.	3	
Q5.4.	What is the use of data warehouse and analytical tools?	None	0	
		A data warehouse has been implemented and gives users the ability to formulate queries against the system databases and produce a variety of fiscal and budget execution and other analytical reports.	1	
	Max technical aspects score		10	

Note: MOF = Ministry of Finance; SU = spending unit.

Appendix F. Total Score Assessment

Dimension	Max score	Actual	Actual / Max
TSA	10		
FMIS coverage	25		
Core functionality	40		
Ancillary features	15		
Technical aspects	10		
Total	100		

Note. TSA = treasury single account; FMIS = Financial Management Information System.

Appendix G. Additional Informational Items

This appendix contains questions regarding some informational items which describe the technical platform used, the numbers of users that are connected to the system, the costs that have been incurred for setting it up and are required for its ongoing maintenance. No scores are assigned for these items but information regarding them is important to assess costs incurred for setting up the system, its ongoing maintenance and sustainability.

The Appendix also requests information on the numbers of staff and budgetary resources that are available for ongoing maintenance and the quality of the telecommunications network that is used to connect the various system nodes in the country. These aspects have been found to be important on the ongoing operations and maintenance and for the sustainability of the FMIS.

Nature of Technical Platform Used and Associated Costs

	Evaluation Question	Response
Nature of software	Custom Developed / COTS	
	Name of the software package used in case of COTS with software version.	
	Number of end-users connected to the system (average, maximum)	
Cost items (in US$)	Total capital cost to date	
	Application software licenses	
	Implementation services	
	Hardware systems software etc.	
	Telecommunications network costs	
	Other (Design and supervision consultancies)	
	Total annual recurrent / operating costs	
	License fees (Application Software, middleware)	
	Ongoing telecommunications usage costs	
	Costs for Technical staff for systems operation and maintenance	

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Arrangements for Operational Sustainability

Evaluation Questions	Response	Actual
Is there an adequate number of technical staff available within the MOF/Government to provide ongoing maintenance and support for the system?	Yes	
	No	
Are there adequate budgetary resources allocated on a yearly basis for on-going systems maintenance and support and for operational costs?	Yes	
	No	
What is the quality of the telecommunications network that connects remote end users to the system in terms of the bandwidth available, robustness, and medium of connection (e.g. fiber)?	Very good	
	Good	
	Fair	
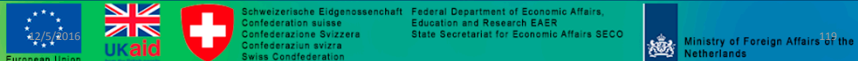
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Appendix H-Results of Sensitivity Analysis

Test to eliminate the possibility of a spurious correlation

To see whether there is indeed a causal relationship between an improvement in the PEFA average score and the FMIS strength and to eliminate the possibility that the improvement in the scores is merely a result of the data sample used, the TSS scores were scrambled and plotted against the corresponding PEFA scores.

This showed no correlation with a low R-squared value (figure 10).
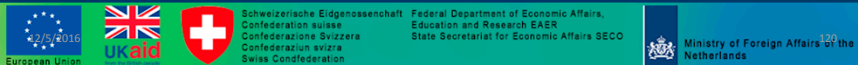
Figure 10. Scrambled PEFA Average plotted against TSS
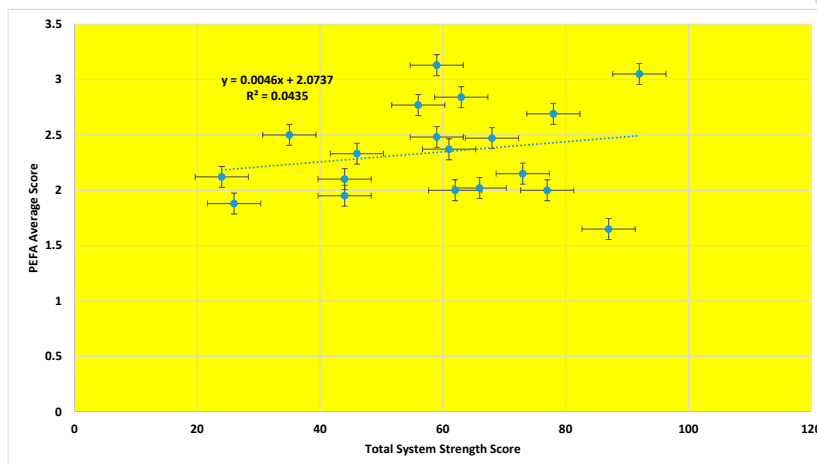
Test to assess the sensitivity of the correlation to the relative weights of the various components used to construct the total score

- For this purpose, the calculation of the system strength was done according to three different schemes:
  - (i) the system strength was calculated as a sum of the scores for the TSA coverage, the FMIS coverage, and the functionality and technical features;
  - (ii) the FMIS coverage was normalized to have the same weight as TSA coverage plus core and ancillary functionality and technical features; and
  - (iii) the TSS score was calculated as a product of the normalized system's strength with the sum of core functionality, ancillary functionality, and technical features.

Sensitivity of TSS to weights -continued

To do this test, the system strength as calculated in the methodology has been further summed up.

The total scores for the core and noncore functionality and the technical features have been summed up into one variable named SUMTECH. The total maximum score for SUMTECH in this scheme is 65. The total maximum score for the FMIS coverage is 25, and the maximum score for the TSA is 10.

The TSS is then calculated in two ways: first, as a sum of TSA plus FMIS coverage and SUMTECH (TSS = TSA + FMIS norm + SUMTECH) (figure 11) and second as a sum of TSA plus the product of the FMIS coverage and SUMTECH (TSS = TSA + FMIS norm × SUMTECH) (figure 12.).

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Sensitivity to weights -continued

- These two indicators TSS1 and TSS2 are plotted against the PEFA average scores for these countries, and the results are shown in figures 11 and 12.

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Figure 11. PEFA Average Plotted against TSS1 (TSS1 = TSA + FMIS norm + SUMTECH)
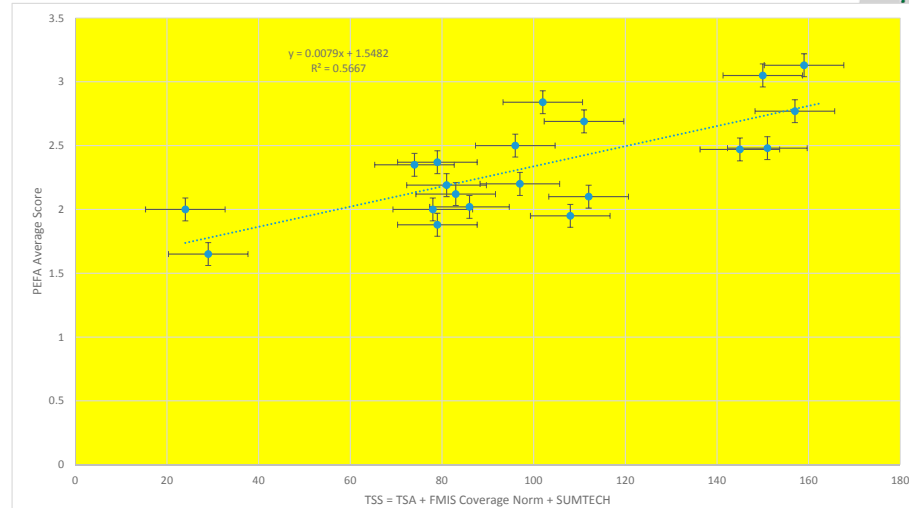
Figure 12. PEFA Average Plotted against TSS2 (TSS2 = TSA + FMIS norm x SUMTECH)
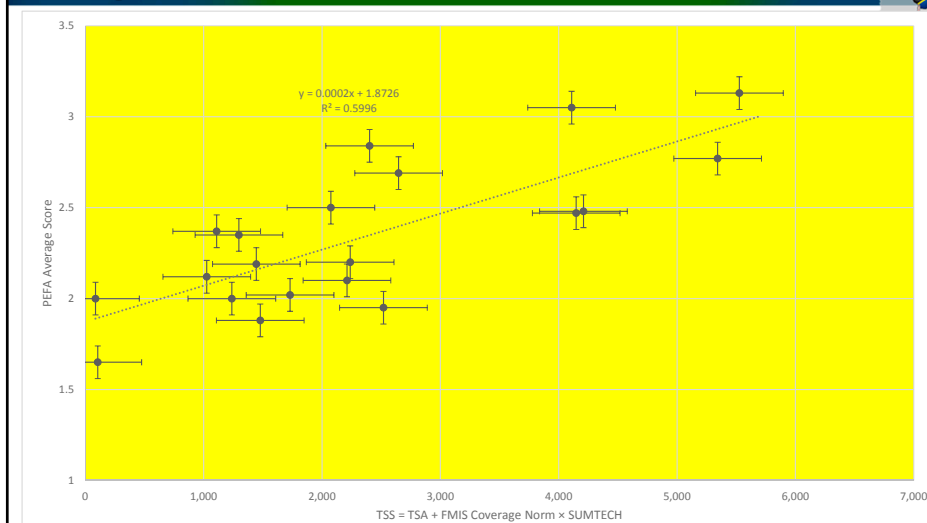
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Key Points Arising

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- Which package is best? In region:
  - Epicor
  - FreeBalance
  - Oracle
  - Bespoke – Smart IFMIS
- Why not just one package like with Asycuda?
- Not just the software:
  - Contractor's competences experience,
  - knowledge of complexities of government PFM and specific government's needs
  - Much bigger solution – all MDAs, LGs, etc. Impossible for one company to support all countries throughout world
  - Manufacturers generally not the implementers

- Bespoke or COTS – Mozambique and Rwanda relatively successful examples of bespoke

- Needs high levels of in-house skills in competences in systems analysis design and implementation

- What type of procurement single or 2 stage – 2 stage can be quicker in end and lower risk

- Business reengineering and transformation – "build a car don't mechanize the horse"

- Local Government: Same IFMIS Software versus alternative software:
  - (Some) Different functionalities
  - Logistical constraints: connectivity; skills/capacity
  - Cost Benefit Analysis: Value of transactions being processed v cost

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- Non-financial information:
  - Level of detail in program structure and KPIs
  - KPIs for various management purposes: HR performance; functional management – education statistics, health statistics
  - For PBB – higher level (Smart) Indicators, KPIs
  - Don't need all the detailed (other) Indicators
  - Record/import Program KPIs (targets and actuals into IFMIS) **Or**
  - Use IFMIS reporting tools to program performance managed in subsidiary systems (database linkages)
- Layers and levels in Program/Sub-Program Codes
  - Can have user definable fields for additional information as well as COA

- Yakub - Uganda
  - Diagnostic tool – share – get management team
  - TSA manually – can automate including sweep back
  - Budget module – PSB how can implement in Uganda
  - Advice to Eritrea – good COA
- Laban – Rwanda
  - Still need to do more and take forward further
  - Learned about architecture etc.
  - Share knowledge and experiences back home – good coordination – AFE
- Simon – SS
  - Good experience learning – experts and peers… Rwanda Ethiopia Kenya etc.
  - Self diagnostic – will take forward
  - Quarterly basis

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- Daniel Eritrea
  - See different systems in use in region – COST v Bespoke (SWOT)
  - Learning a lot from discussions
  - Have COA (incl CPFOG) – harmonized GFSM2001
  - Diagnostic tools important for preparation going to IFMIS
  - Dashboard also very useful
  - Experiences shared – gained a lot
  - If have IFMIS – also need banking sector (Central and Commercial Banks) with systems – developed ICT market – foundations and prep in place
- Williard – TZ
  - Widening the network – can ask – platform for sharing knowledge and experiences? Unify and harmonize
  - To have platform right for TSA – can visit countries see what has worked what not so well.
  - Want to implement full functionality for Arrears clearance and prevention
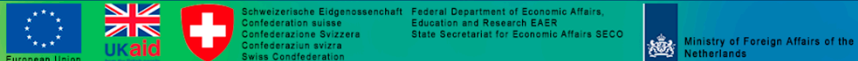
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- Mekonnen Ethiopia
  - Vote of thanks – learned from the theory and practical knowledge of peers
  - Political commitment for IFMIS implementation – most important area
  - From Rwanda team – all transactions through the system – efficiency and effectiveness from customized bespoke system
  - Legal framework
  - Change Management and capacity building – build sponsorship - ADKAR
  - Property management – limited capacity
  - Dashboard an idea for their implementation
  - Experiences on rollout - learned from Rwanda
- Frank/Jeanne – Malawi
  - RBM dictating conditions and GoM having to accept – now turned around and required provide proper appropriate service
  - Previously – issues of referencing and differences in amounts.
  - Joint project to have transfer GoM reference number on bank statement
  - Agree content on soft copy bank statement
  - Learned from diagnostic tool.
  - Dashboard – currently takes day or two to provide a report. Supply v Demand driven reporting
  - Comprehensiveness of recording in IFMIS – so learned and now have challenge to include – need political will
  - MDAs need to know how much they have available at any one time – need train officers (plus managers and executive)

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  - Comprehensiveness of recording in IFMIS – so learned and now have challenge to include – need political will
  - MDAs need to know how much they have available at any one time – need train officers (plus managers and executive)
  - Want to procure new system – learned from TZ and other users that problems after upgrading
  - Should not lose what they have now when they migrate to new system
  - In GoM – requires documentation to be all supplied at Treasury – as no trust on MDAs – needs Change Management but also effective controls
  - Challenges – foreign payments – still unresolved (conversion rate)
  - Arrears – MDAs from suppliers even though no money

Lessons Learned and Way Forward

- How can we take away our learning and share with our colleagues?

- Share materials, discuss outcomes and findings

- Implement suggestions and solutions coming out of the workshop:

  - Bringing DP project bank accounts and expenditures into IFMIS and where possible TSA

  - Public Debt Servicing transacted through IFMIS

  - Report fully through IFMIS, (not manual preparation): Full coverage

  - Real comprehensive commitment control. If you have effective commitment control, you **do not have payment arrears**

Future IFMIS Workshops?

• What Themes and Topics?
• MTEF/PBB – how to build into IFMIS

Workshops covering other PFM Areas?

• What aspects of PFM?
  • Public Debt
  • Cash management/ Open market operations
  • Change management
  • Asset Management

Thank you

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