Session 3.1 – Budget Monitoring Reporting & Accounting

November 28th, 2017
Paul Seeds
Entebbe, Uganda

Session outline

• Different Categories of reports, documents and messages

• Data Collation, analysis and presentation
Different categories of reports

Accounting, monitoring and other reports

• Accounting – general purpose reports
• Budget Execution Reports (BER)
• Use of actual outturn figures in budget estimate books
• GFS Fiscal Reports
• Arrears reporting
• Other supporting documents informing budget preparation and monitoring of budget execution
Accounting - General purpose accounts

- Typically the annual financial statements (AFS), which are audited.
- Based in international standards – International Public Sector Accounting Standards (IPSAS).
- Generally cash basis of accounting (aligned to budget) but countries planning move to accrual (Tanzania: already in process; Rwanda: preparing implementation blueprint and roadmap/plan).
- Focus is largely on financial not so much on performance of service delivery targets, outputs and outcomes.

The core accounting statements

- Cash Basis:
  - Income and expenditure statements (primarily inflows & outflows) – ideally IPSAS2 format: Operating; Investing and Financing activities
  - Balance Sheet of (below the line) financial assets and liabilities

- Accrual Basis:
  - Performance statement (revenues and expenditures calculated on accrual principles)
  - Position Statement (full assets and liabilities: financial and non-financial)
  - Cash flow statement – IPSAS2 format, with reconciliation of movements in net working capital against deficit and net cash position
  - Movement in net worth (equity) and notes and disclosures
Presentation of accounting information (1)

• Consolidation of all government entities with “drill-down” to detail (Budget Estimates often lacking an overall summary statement covering all government entities – primary focus = BCG)

• Multi-dimensional presentation of performance reports, by:
  • Economic classification (aligned to GFSM2014)
  • Program (with drill down to sub-programs)
  • Agency (MDA)
  • Functional classification (government bespoke functional sectors and COFOG functional sectors)

• Zeroization of all intra-government transfers (EBUs, LGAs, etc.) + ALL revenues including own source revenues (and AIA) and spending therefrom

• In year reporting as well as AFS: Bi-annual Financial Statements or even quarterly (unaudited)

Presentation of accounting information (2)

• Comparative figures: prior year actual and budget comparisons

• IPSAS2 Cashflow Statement as the link between accrual accounting under cash based budgeting

• Consistency across different reports is important

• Reconciliation and consistency with BERs and GFS statements

• Ideally a single central repository maintaining all the accounting information, e.g. IFMIS but challenge is that coverage in IFMIS is not comprehensive- have to use multiple sources

• Reconciling accrual based deficit figures with cash based deficit (cash flow statements with adjustments for non-cash economic flows)

• Clear presentation of fiscal aggregates demonstrating the fiscal principles have been met
Presentation of accounting information (3)

• See examples of NZ financial statements

• Summary up front clearly showing the overall operating balances and use of graphic presentation... then drilling down into the detail

• Different dimensions of spending – economic and functional sector

• Note also the cash flow statements and the reconciliation for movement in non-cash economic flows – the link between cash budgeting and accrual accounting

• Also interesting to see an additional dimension – presentation of the budget “My Tax Dollar” for public to see where their tax

Use of outturn information in estimates

• Present the last completed year’s figures actual outturns in budget estimates and MTEF

• Projected figures to end of the year (for current budget year during next budget cycle)

• Information on contracts and projects to ensure all in-year and multi-year commitments are provided for in the MTEF and annual budget

• Historic cost information to assist costing of programs, sub-programs and activities in the budget

• Cross check to past expenditures to ensure adequate provision made in budgets

• Monitoring actual outturns against fiscal discipline targets: deficit; total public debt; floor on investment spending; wage bill, etc.
Budget Execution Reports (BER) (1)

- Grouping here the formal published budget execution reports along with less formal documents used for internal decision making purposes
- Usually quarterly for broad publication and monthly for internal management purposes
- Is there a need for greater convergence of the two? Or are their respective needs distinct and separate?
- Published reports tend to be much broader and contain a detailed narrative on the state of the economy, fiscal performance, financing and debt, plus a broad outturn statement (but in less detail than required for effective monitoring)
- Second and fourth quarters represent budget execution for mid-year and end of year reviews (plus internal documents)

Budget Execution Reports (BER) (2)

- Required information for effective monitoring:
  - Showing detailed line items outturns against: original budget; revised budget; budget releases
  - Can show actual outturn (expenditures) and commitments against budget (total committed position) reflecting budget implementation
  - Ability to present summarized data by CoA dimension (economic item sub-chapter; program; MDA; etc.)
  - PBB Reporting (financial and non-financial) is fundamental to monitoring the implementation of the PBB
  - Primary objective is to demonstrate execution of the budget and highlight problem areas requiring attention
Budget Execution Reports (BER) (3)

- Often data from disparate sources used (not full use of IFMIS):
  - Budget release used as a proxy for implementation
  - IFMIS is not comprehensive or transactions recorded late in system
  - Commitments only partially entered into IFMIS if at all
  - Commitments reflect the true picture of MDAs (and governments) obligations entered into, which will lead to future payments
  - PBB reporting outturns v budget is often therefore a challenge

- MDAs may monitor non-financial performance (e.g. output data) but done in an ad-hoc manner? Any standard statement which can be used to consolidate all achievements?

- Should outputs and achievement of KPIs be included in the published BER in a summary statement (highest level)?

- Consolidated financial outturn statements published?

Monitoring medium term budget execution

- Whilst some form of analysis may be undertaken of medium term budget implementation – tends to be less formal and not published (primary focus on in-year budget)

- Consistency of the MTEF with subsequent years’ budgets?
  - Comparison of Budget year figures with prior years’ Outer Years 1 & 2
  - Comparison of this year’s OY 1 with last year’s OY2
  - Review trend over time to indicate the reliability, consistency and credibility of the medium term projections
  - Highlight ad-hoc budgetary decisions not framed by the medium term objectives

- Should this be a formalized document?

- To whom would this data be presented? MoF? Legislature? Accounting Officers? Should it be published for all (open and full transparency)?
Example from BER Statement

## FISCAL RESULTS, 2010/11 – 2016/2017 (Ksh Millions)

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<tr>
<td>1.1. Personal Income</td>
<td>3,608</td>
<td>3,713</td>
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<td>3,500</td>
<td>3,680</td>
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<td>1,016</td>
<td>1,056</td>
<td>1,100</td>
<td>1,180</td>
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<td>1.3. Corporate Income</td>
<td>4,500</td>
<td>4,700</td>
<td>4,700</td>
<td>4,800</td>
<td>5,100</td>
<td>5,500</td>
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<td>1.4. Other Direct Tax</td>
<td>626</td>
<td>610</td>
<td>591</td>
<td>580</td>
<td>590</td>
<td>600</td>
<td>580</td>
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<td><strong>Expenditure</strong></td>
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<td>1,500</td>
<td>1,600</td>
<td>1,700</td>
<td>1,800</td>
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<td>2,500</td>
<td>2,700</td>
<td>2,900</td>
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<td>850</td>
<td>900</td>
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<td>5. Current Expenditure</td>
<td>2,000</td>
<td>2,200</td>
<td>2,400</td>
<td>2,600</td>
<td>2,800</td>
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<tr>
<td>6. Defence Expenditure</td>
<td>1,500</td>
<td>1,700</td>
<td>1,900</td>
<td>2,100</td>
<td>2,300</td>
<td>2,500</td>
<td>2,700</td>
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<tr>
<td><strong>Net Balance</strong></td>
<td>300</td>
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<td>500</td>
<td>600</td>
<td>700</td>
<td>800</td>
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Example from BER Statement

### In Percentages of GDP

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<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td>18.1%</td>
<td>18.7%</td>
<td>18.3%</td>
<td>18.5%</td>
<td>18.6%</td>
<td>18.8%</td>
<td>18.8%</td>
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<tr>
<td>1. Direct Tax</td>
<td>17.4%</td>
<td>17.9%</td>
<td>17.5%</td>
<td>17.6%</td>
<td>17.7%</td>
<td>17.9%</td>
<td>18.0%</td>
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<tr>
<td>1.1. Personal Income</td>
<td>13.3%</td>
<td>13.8%</td>
<td>13.4%</td>
<td>13.5%</td>
<td>13.6%</td>
<td>13.8%</td>
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</tr>
<tr>
<td>1.2. Property Tax</td>
<td>6.8%</td>
<td>7.1%</td>
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<td>7.1%</td>
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</tr>
<tr>
<td>1.3. Corporate Income</td>
<td>14.7%</td>
<td>15.1%</td>
<td>15.0%</td>
<td>15.0%</td>
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<td>1.4. Other Direct Tax</td>
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<td>2.7%</td>
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<tr>
<td><strong>Expenditure</strong></td>
<td>18.7%</td>
<td>19.4%</td>
<td>20.1%</td>
<td>20.8%</td>
<td>21.5%</td>
<td>22.2%</td>
<td>22.9%</td>
</tr>
<tr>
<td>2. Capital Expenditure</td>
<td>9.6%</td>
<td>10.3%</td>
<td>11.0%</td>
<td>11.7%</td>
<td>12.4%</td>
<td>13.1%</td>
<td>13.8%</td>
</tr>
<tr>
<td>3. Transfer Payments</td>
<td>11.5%</td>
<td>12.2%</td>
<td>12.8%</td>
<td>13.4%</td>
<td>14.1%</td>
<td>14.8%</td>
<td>15.5%</td>
</tr>
<tr>
<td>4. Interest Payments</td>
<td>3.9%</td>
<td>4.1%</td>
<td>4.3%</td>
<td>4.5%</td>
<td>4.7%</td>
<td>4.9%</td>
<td>5.1%</td>
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<td>11.4%</td>
<td>12.1%</td>
<td>12.7%</td>
<td>13.3%</td>
</tr>
<tr>
<td><strong>Net Balance</strong></td>
<td>0.5%</td>
<td>0.7%</td>
<td>0.4%</td>
<td>0.3%</td>
<td>0.1%</td>
<td>0.0%</td>
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</tbody>
</table>
Reporting of Payment Arrears

- Under cash based accounting do not have full aged analysis profile of liabilities from the system
- Under accrual accounting should have Accounts Payable (AP) with all due dates and therefore disclosed more transparently
- Arrears an indication of problems throughout the whole PFM cycle
- Arrears should be disclosed in budget along with a *credible* clearance strategy - Often “arrears should be first call in budget funds”
- This is not realistic if budget funds are wholly inadequate for clearance of arrears as well as implementing the planned budget activities
- Arrears impacts on ability to implement the budget as planned and distort the real deficit position
- Need to closely monitor arrears to determine if there is a growing problem – quarterly reporting not just at year end

GFS Fiscal Reporting

- Four core summary statements
  - Operations (performance statement)
  - Other economic flows (revaluations and other changes in volume)
  - Balance Sheet (position statement)
  - Statement of sources and uses of funds
  - Plus changes in net worth and statement of contingent liabilities
- 9 core detailed statements: (detailing stock positions, transactions and other economic flows)
- Convergence between IPSAS and GFSM - But:
  - Challenges when IFMIS not comprehensive and data collated separate sources
  - GFSM based on accrual concepts so requires additional information to that contained in cash based AFS/Reports; and includes Monetary (cash) and non-monetary transactions (economic flows)
  - Leading to consistency and reconciliation issues
Other supporting documents/information

- Monitoring progress on procurement plans and work plans – should plans be updated during the year? Mid-year review or quarterly?
- Budget release information and utilization of budget releases (separate from cash ceilings)
- Review (%) of budget released and utilization (%) of budget releases
- Information on contracts and large projects:
  - Updated implementation (and payment) schedules recorded and committed;
  - Contract variations updated and committed accordingly;
  - Adjustments incorporated into updated budget releases and cash flow forecasts

Data collation analysis and presentation
Multi-dimensional CoA (1)

- Sound CoA structure critical to multi-dimensional analysis
- Ability to “slice and dice” the transaction data and present in multitude of formats, groupings, summaries, etc.
- Shared CoA for consistency throughout whole cycle: planning, budgeting and reporting & accounting
- Typical segments:
  - Administrative segment (organizational dimension)
  - Funding Segment (Source of funds)
  - Economic Item (category and nature of expenditure)
  - Program, sub-program, activity segment (purpose of spending)
  - Geographical segment (beneficiary region of spending)
  - Plus mapped codes: COFOG; Priorities, etc.

Multi-dimensional CoA (2)

- CoA one of the core configurations in the IFMIS and other systems
- Based on and supports standards:
  - International Public Sector Accounting Standard (IPSAS)
  - Classification by Function Of Government (COFOG)
Supporting systems (1)

- Different countries operate different module configurations

- IFMIS covers budget formulation and budget execution:
  - Examples budget modules – Oracle Financials Planning and Budgeting System (PBS)

- IFMIS covers the Treasury operations but separate software for budgeting
  - Examples of separate budget software: Hyperion and Oracle EBS; Isidore and Epicor;

- Rwanda bespoke systems – integrated budgeting and accounting

Supporting systems (2)

- Usually separate planning software, separate projects databases, e.g. ePROMIS in Kenya

- Contracts database:
  - Do we have a comprehensive database of all contracts?
  - Updated regularly to reflect contract variations and rate of implementation?
  - Interfaced with IFMIS to update in-year and multi-year commitments?

- Do we maximize the use of information in IFMIS? Avoiding ad-hoc information sources?

- Is IFMIS comprehensive i.e. the sole central repository for all financial information? “One version of the truth”?
Supporting systems (3)

• Can IFMIS incorporate non-financial information or is it necessary to combine this information from other systems?

• Business intelligence tools can assist by combining information from different databases

• Provides all the necessary reports

• PBB reporting and all other monitoring reports?

Non-financial performance

• Performance against (SMART) KPIs, outputs and outcomes

• At what level is performance measured? Do we need to go down to activity level? Greater focus on program and sub-program (outcome information)

• Performance data recorded in IFMIS or other (planning) software?

• Business Intelligence (BI) tools can pull together the financial and non-financial data from different sources

• How frequently do we measure and record? Is quarterly adequate?

• Who is responsible for recording and reporting non-financial information?
Key messages

• Achievements against MTEF, Budget, Sector plans, NDPs strategic objectives and goals

• Achievement against KPIs – poverty reduction, employment creation, rural development, economic development, exports, etc.

• What has been actually collected and spent compared against budget (efficiency and compliance)

• Trends reflecting areas of improvements over the years – better targeted expenditures, improved collections of revenues, stabilization of borrowing, reduction in volume and size of budget revisions, etc.

Key messages for internal managers

• Progress on implementation and identification of bottlenecks and delays

• Executive Information Systems with graphical dashboard presentations high level overview – many messages delivered in brief with ability to drill down

• For example figures on cash funds, budget availability and savings, items likely to require additional budget funds, etc.

• Which programs are performing well and delivering against outputs and outcomes, which are underperforming and may need to be contracted, discontinued or replaced

• Not just income and expenditure – need to monitor assets and liabilities, including contingent liabilities:

• Condition of assets and decisions on replacement

• Growing stock of liabilities, including payment arrears, an indication of issues and problems in the PFM cycle

• Being accountable for the net worth of entities, maximizing returns on investment – are all investments providing a positive economic return?
Audiences

• Legislature and cabinet
• Ministry of Finance Treasury (for management purposes)
• Senior management of Ministries Departments and Agencies (MDAs) – Accounting Officers, etc.
• Program managers, budget holders, spending
• Lenders and IFIs (e.g. IMF and WB)
• Other development partners (DPs) – who may require their own reporting format
• Citizens – the public: we have a citizens budget (easy to digest) but do we have a similar publication to summarize the Annual Financial Statements?
• Civil Society Organizations (CSOs), etc.

Publishing and presentation of materials

• Heavy reliance on paper but also publishing on web
• Web publication is important – provides wide availability of documents, e.g. to the public – it is a key element in fiscal transparency
• Web data can be more easily analyzed from its electronic format; it can provide summaries for high level oversight with the backing data to be able to delve more deeply into the figures
• Data should be in a reusable format, e.g. Excel. text, etc. Preferably not a scanned “picture” in pdf format. A pdf created from an MS Office file can be converted back again, a scanned picture cannot
• Dashboard – summary information with drill-down capabilities – NZ website shows some of these features on drilling down
Publishing and presentation of materials

- Traits of good presentation hold good for both hard and soft copies: orderly; intuitive; easy to use and find way around the documents
- Infographics – Instant image (message) created pulling user in to enquire further
- avoid data overload – imparting the key high level messages but giving access to detail
- Web pages optimized for use on mobile phones and tablets as well as computers – broadening the coverage to the public
- Are web based reports up to date? Maybe started well and then tailed off? Who is responsible for publishing on the web?
- Concerns over publishing unaudited figures – can always state that the figures are unaudited to make this clear to users of the information

My Tax Dollars (Example from NZ)
Challenges in PBB Reporting

- ESAAG meeting 2016 – expressed challenges and difficulties in PBB reporting
- Are the KPIs smart and measurable? Can we measure actual outputs and outcomes
- Who/how are they recorded?
- Can we reliably allocate all costs to program:
  - Payroll costs (staff allotted against programs or departments? Allotted correctly?)
  - Have we broken out of mold – analyzing costs by program rather than department
  - Central procurement – how to allocate to sub-programs
  - Shared costs – how to allocate to sub-programs
Challenges in PBB Reporting - Systems

• CoA fully supporting all needs of PBB – financial and non-financial classifications?

• Ability to define bespoke KPIs – units of measure in IFMIS or associated system?

• Issues of how this data is recorded, stored and presented in the reports (budget execution as well as preparation)?

• Have the right tools and skill to design the PBB reports

Any Questions, comments or feedback?
Thank you