



Tackling Risks in the PFM Environment: The Public Financial Management Reporting System

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Zusammenarbeit
GmbH



The PFM Reporting Framework

Need for oversight: Role of SAIs

PFM System Failure: Risk or Reality?

What is happening?



Government service delivery crisis

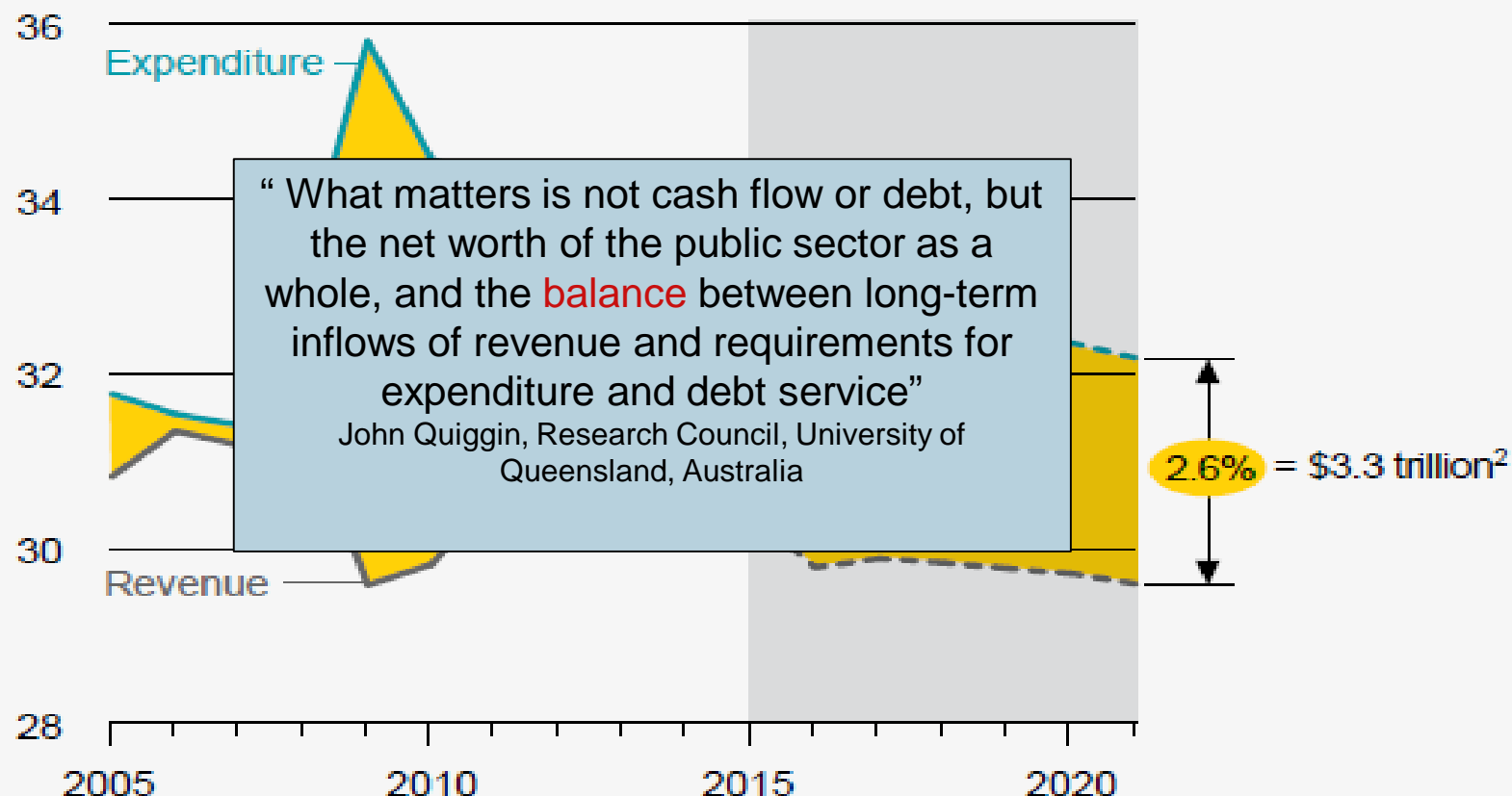
- Increasing demands of growing populations
- Rising inequalities, urbanisation, youth unemployment, obesity, security threats
- Government deficits at 3 trillion USD worldwide shrinking fiscal space
- Growth slowdown
- Corruption scandals and inefficiencies

*Mc Kinsey Centre for Government:
Government productivity: Unlocking the
\$3.5 trillion opportunity 2017*



Forecasts suggest that many governments will face continuing budget deficits

Total government expenditure compared with revenue, 2005–21¹
% of GDP



1 Data for 182 countries.

2 USD 2010 PPP.

SOURCE: International Monetary Fund; IHS Markit



The Budget is an Expression of Policy Choices – and Policy Choices are inherently risky

„The tendency in democracy is for utility-maximizing politicians to borrow and spend rather than to tax and spend, and to spend much rather than little. “

„James M. Buchanan, International Journal of the Social Sciences”, 1968

What is the correct policy choice?
Ex ante - Ex post



“Greece in chains”, @Eurodad

Truism 1: Public Financial Management is important

4 Areas for improvement

01 PFM to assume key leadership role

02 Focal areas: procurement, SOE mgt, Project mgt

03 Data analytics

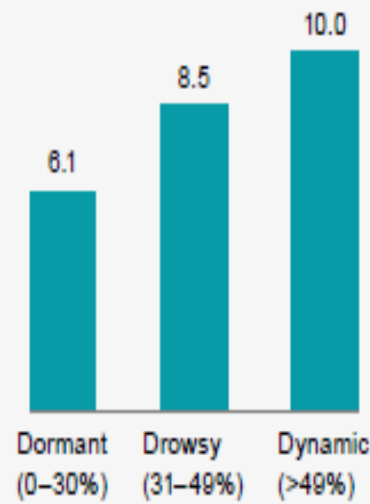
04 HR, capacity building

Exhibit 21

Most governments change their spending allocations only marginally year-on-year, suggesting an opportunity to improve allocative efficiency

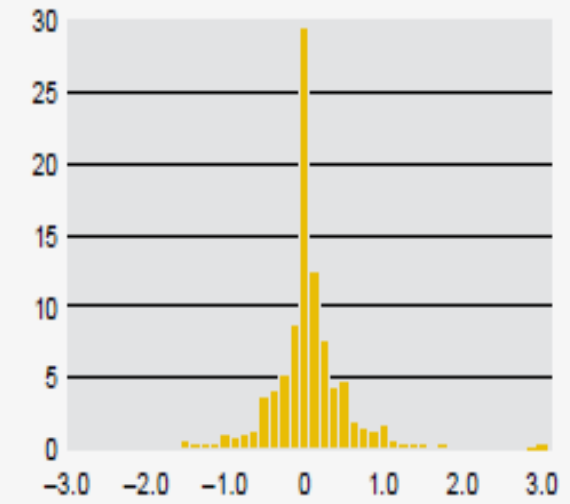
Companies that reallocate budgets dynamically tend to deliver higher shareholder returns

Median total shareholder return growth rate by degree of capital reallocation, 1990–2010
Compound annual growth rate, %



By contrast, in governments, fewer than one in ten sector budget allocations in EU governments changed by more than 1 percent

Frequency with which sector allocation changed year-on-year, 2006–14
Total reallocations¹ across EU countries, %



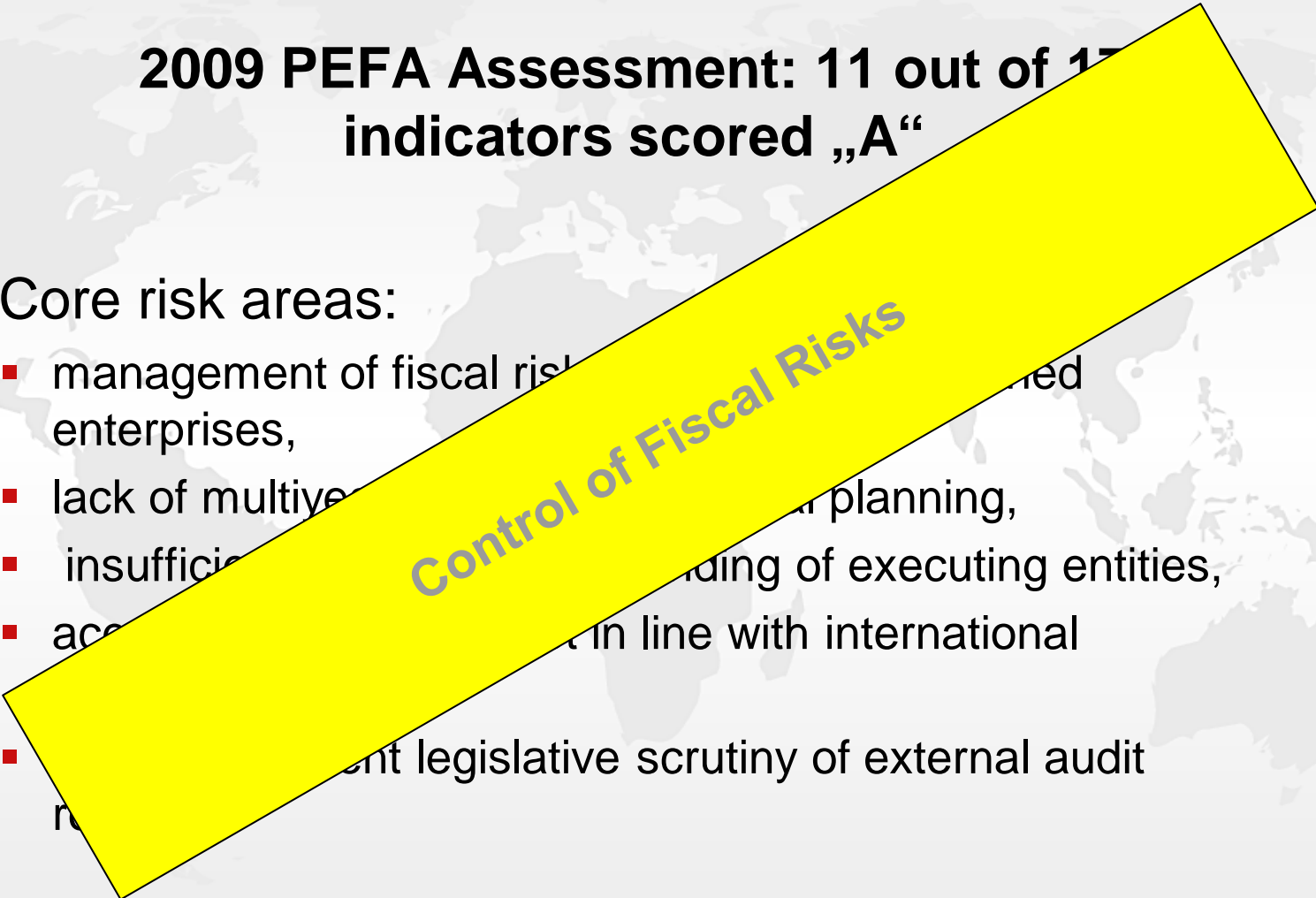


Brazil: PFM Gold Star (2009)

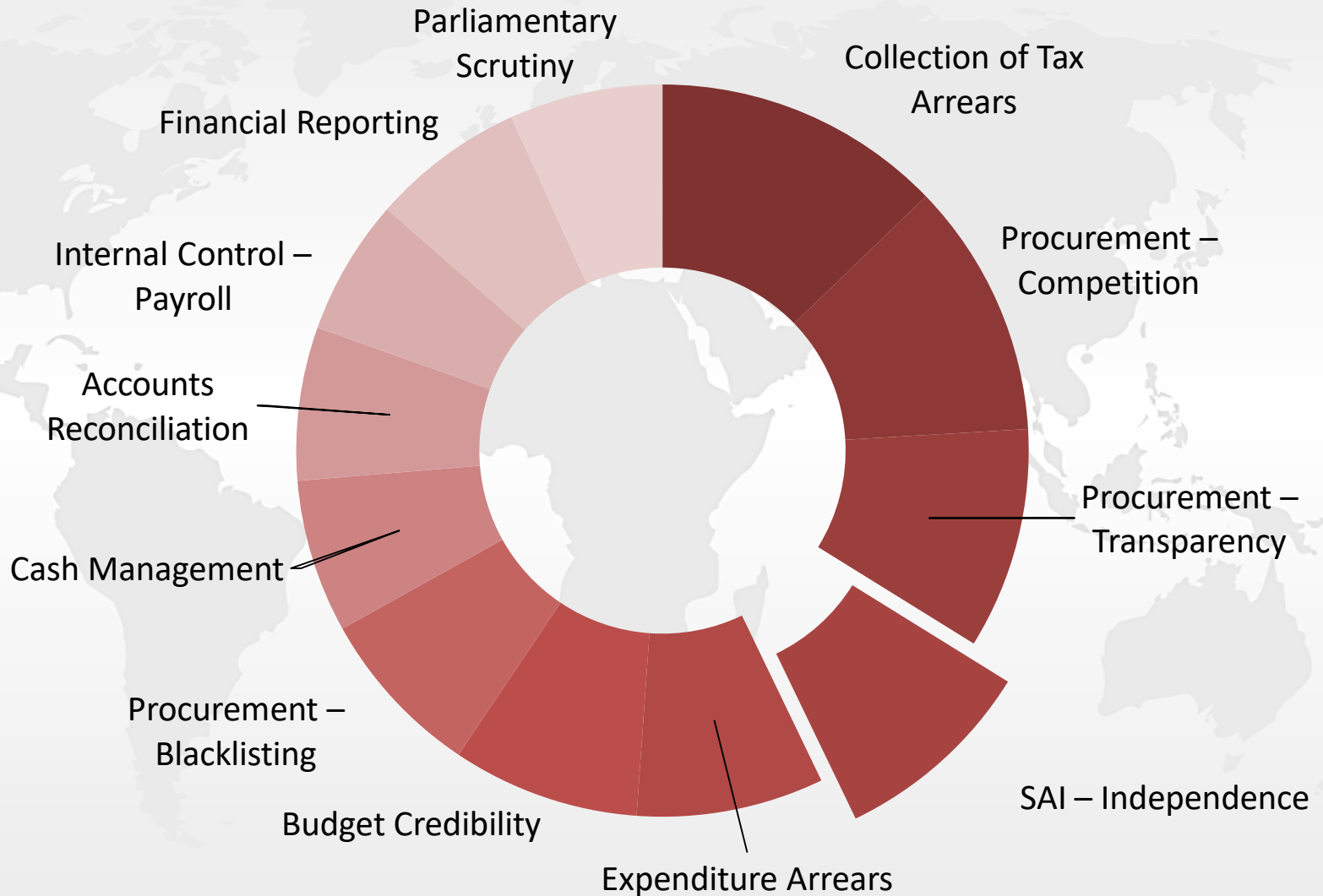
2009 PEFA Assessment: 11 out of 17 indicators scored „A“

Core risk areas:

- management of fiscal risk
- enterprises,
- lack of multiyear
- insufficient
- inadequate
- accounting in line with international
- insufficient legislative scrutiny of external audit



Core PFM risks in Africa (data analysed for 23 countries)

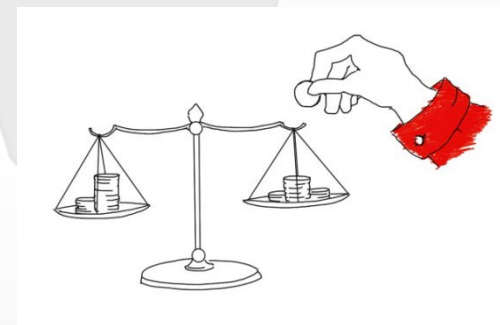




Role of SAIs in improving Public Finance

➤ Transparency and oversight

- Analyse and assess
- From entity level findings to the aggregate picture
- For the whole of government, what are the most relevant risks?
- Report and debate





➤ Know what you know



Truism 2: Knowing your PFM System is not a once-off

- To what extent are underlying systemic weaknesses causing the day-to-day malperformance that you are witnessing?
- How would you rate the functionality of your PFM system?
- Do you know the risk areas for your PFM system?
- Are you convinced the government is taking adequate actions to tackle those risk areas?
- Is your Supreme Audit Institution a competent partner in promoting a functionally sound PFM system?
- Is it easy for Parliaments to understand your reports?
- Is government implementing Parliament's resolutions on improving PFM?
- Have you seen visible improvements?



Lack of resources to implement the necessary changes

Lack of technical understanding of what needs to change

Lack of political will to make the necessary changes

Lack of follow up to audit reports

Audit findings are difficult to understand and interpret

Audit findings are not sensitive to, or situated within, wider understanding of PFM systems and therefore lack relevance to PFM managers

2017 AFROSAI-E Governing Board agreed



- there is a need for a **common reporting framework**
- a **simple concept** that includes guidance on a **common understanding** of a PFM system
- assist with **categorizing** findings and **aggregating** and **comparing** results amongst SAs.
- **Aim:** to emphasize the value and benefit of SAs to the lives of citizens as per ISSAI 12.

PFM Reporting Framework

- The PFM Reporting Framework is for SAIs to identify the **most relevant PFM risks** present in their country
- It draws on **existing information** by collecting findings in a light diagnostic tool.
- It allows for **a systemic thematic synthesis** across all individual entities that a SAI audits



Benefits

The tool highlights weaknesses for each department or entity.

The dashboard generates a graphic picture and allows for a comparison across all core stakeholders

The PFM RF looks at policy and spending level..



- **Covering 80% of spending**
- **Most important Ministries / Departments Agencies or most relevant SDG areas**
- **Reports on SDG 16.6.1 and 2 indicators**

.. to ensure alignment with 3 fundamental PFM objectives

Financial Sustainability is a system's capability of delivering prudent fiscal decisions such that over the medium-to-long term the budget is balanced

Implementation of policy priorities occur when budgets are credible and institutions are capable of delivering on national priorities through their planning and allocation processes.

Service delivery depends on reliable and efficient use of allocated funds implemented by accountable institutions.

Functional PFM System

Risks and Threats

Key Stakeholders

Ministry of Finance

Revenue Authority

Parliament

Spending Ministry Education

Spending Ministry Health

jurisdictional



.. with a focus on form over function

- Spending decisions are affordable
- Contingent liabilities known

Financial Sustainability



- Budgets are comprehensive and credible
- Spending reflects budget as approved

Policy implementation



- Cash provided on time to Ministries
- Quality procurement executed as planned

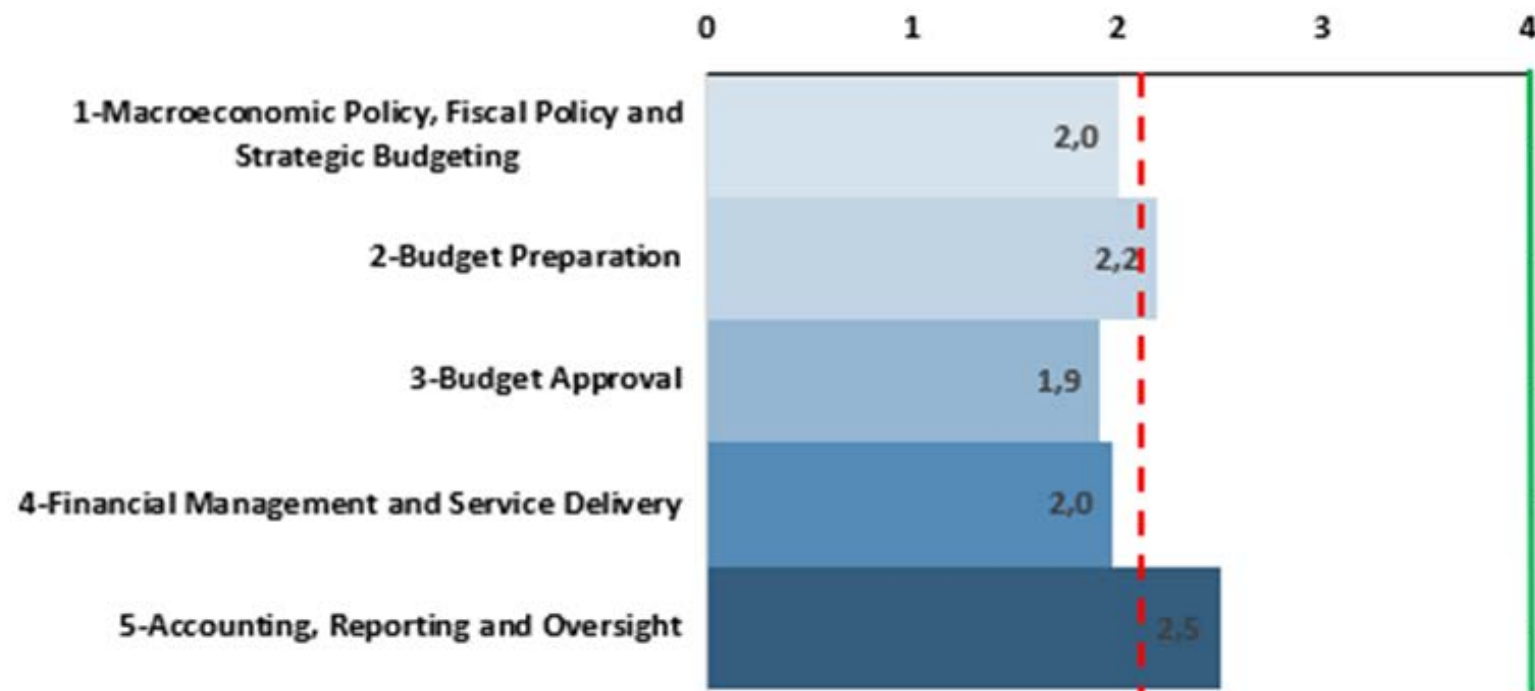
Service Delivery



What the tool can do: Assessing and Reporting on Government PFM Performance

Government Performance by PFM Process

Average of process-level performance of all institutions involved in each process



Reporting on SDG indicator 16.6.1: deviation between budget proposal and actual expenditure

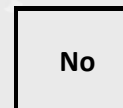
Overall Process Performance

Average of the performance of all the institutions engaged in this process



Key Risk Area?

Risk Area if the performance grade is less than 2

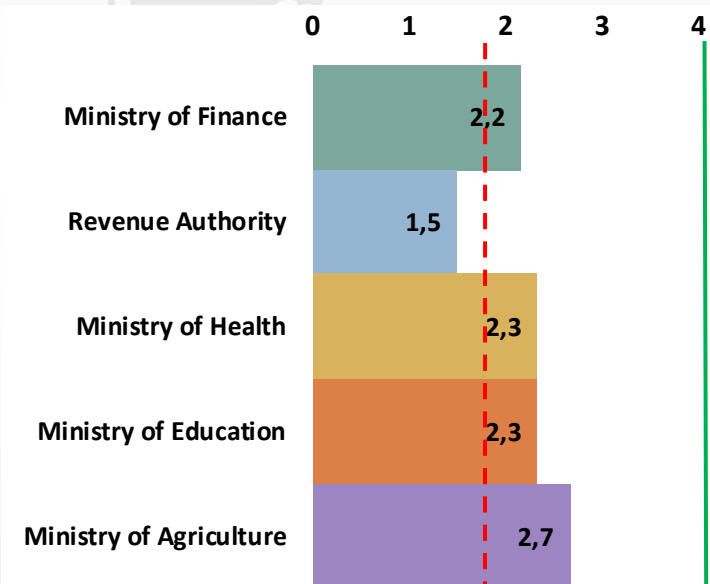


Quality Assessment

Number and percent of Key Questions with response of "No information"

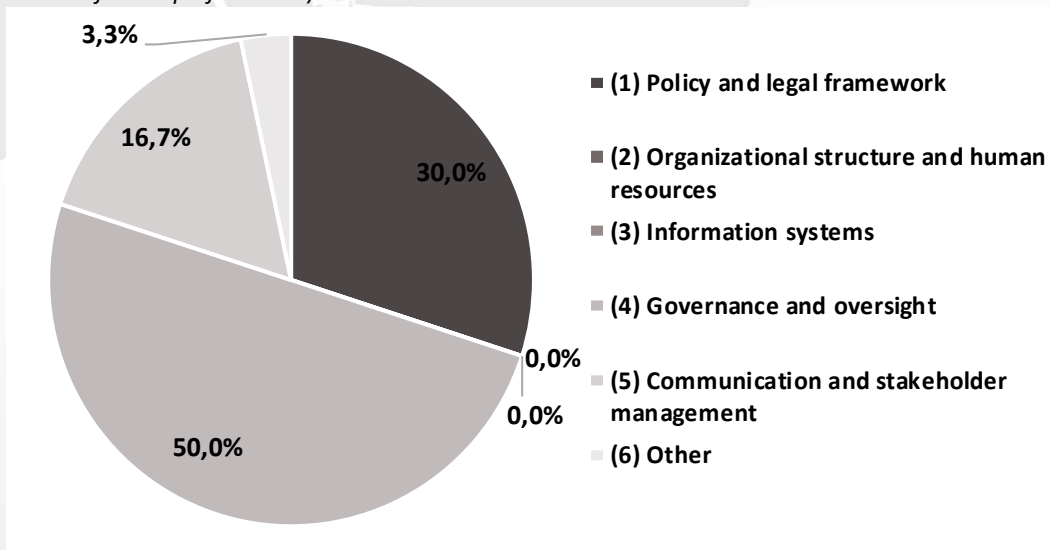
Performance by Institution

Average of all Key Questions assessed for this process for each institution



Root Causes of Underperformance

Percent assignment of each Root Cause of Underperformance across all Key Questions for this process (excludes Key Questions with a performance grade of 4 which were not assigned a Root Cause of Underperformance)



Monitors integration of SDGs

- into budget planning

- and budget execution (monitoring of implementation)

Budget Preparation



Ministry of Finance

Revenue Authority

Ministry of Health

Ministry of Education

Ministry of Agriculture

Assessed for MoF

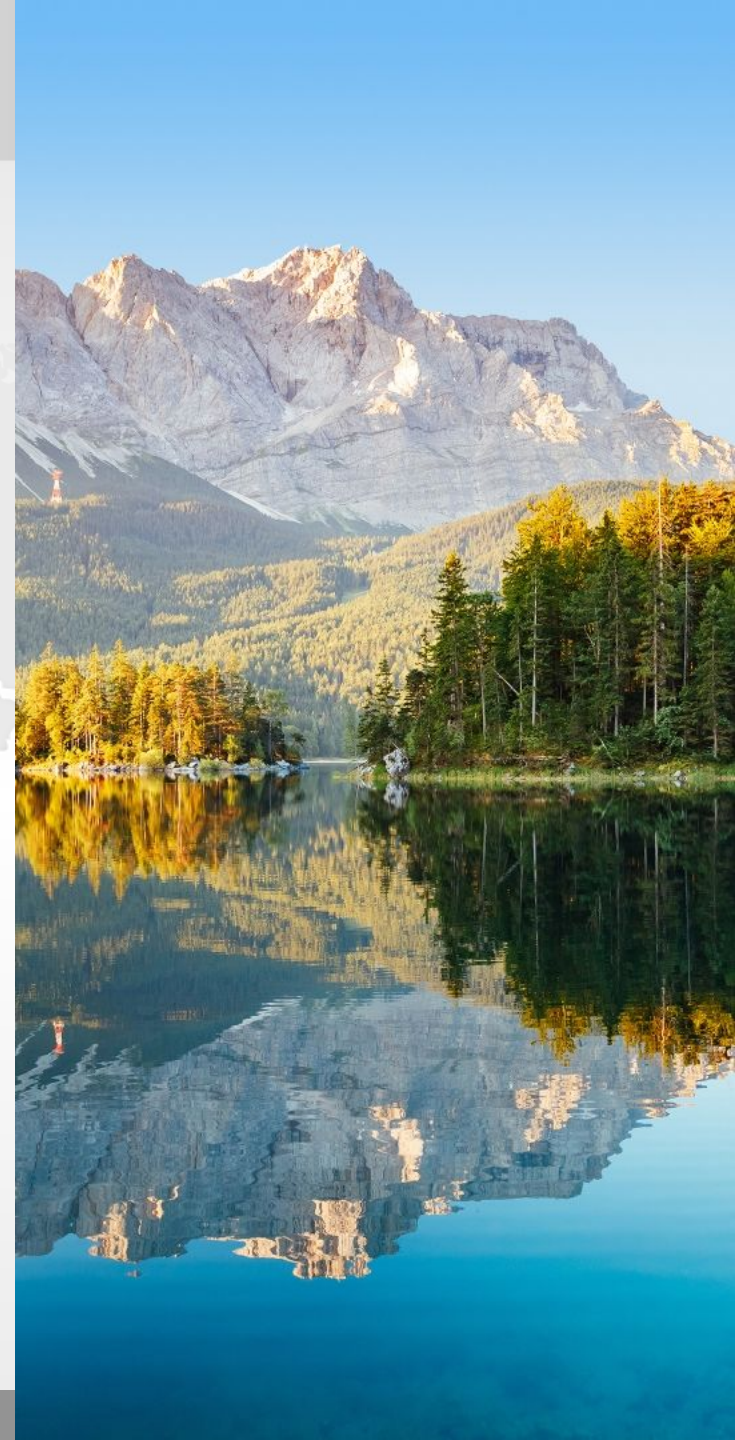
Assessed for RA and MDAs

Does the MoF regularly monitor and review performance against SDG targets, including corrective action?

Does the Revenue Authority /Ministry regularly monitor and review its performance against SDG targets, and is there a sufficient performance level?

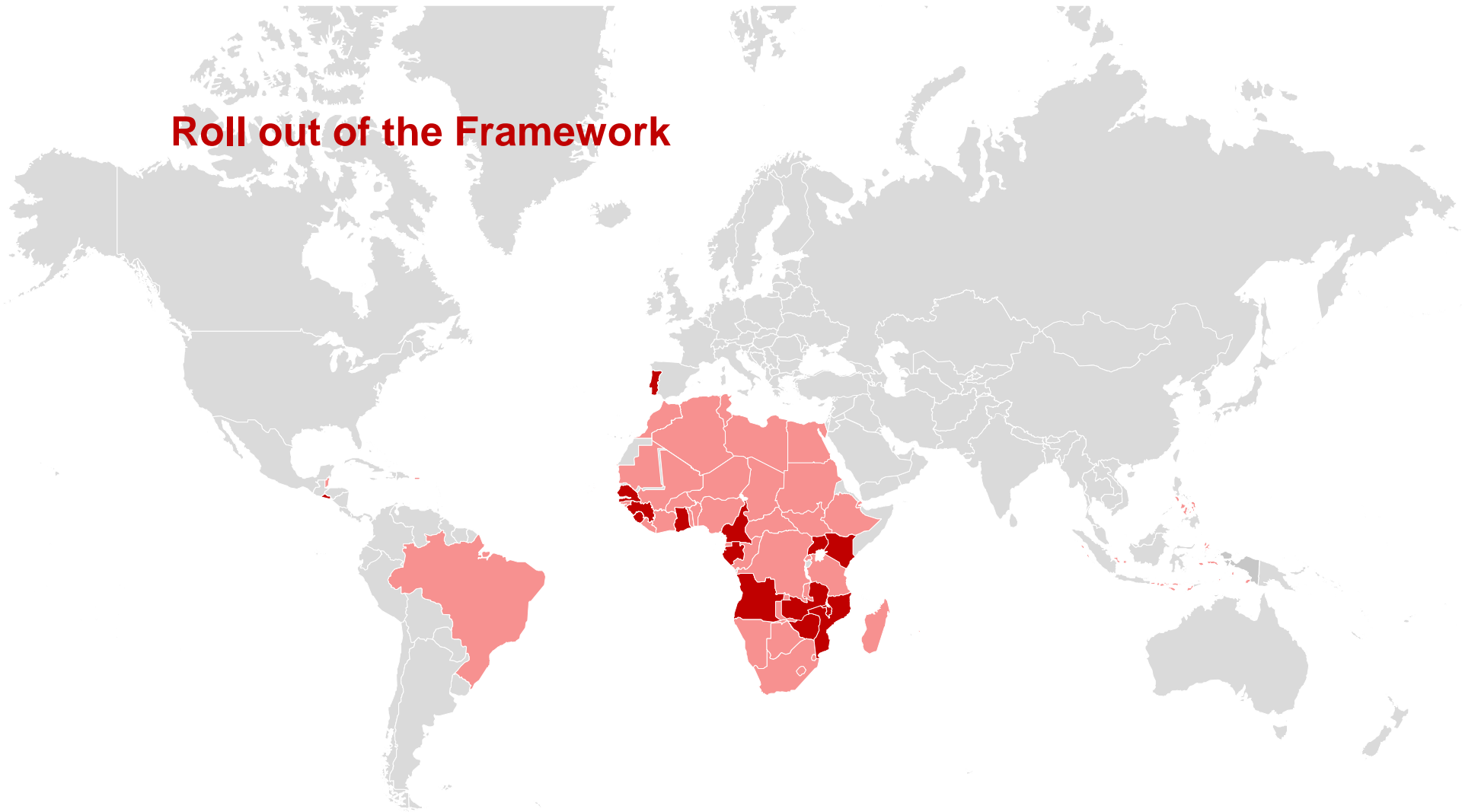
Possible use

- **In reporting**
 - As national PFM performance report
 - As chapter in annual report on PFM
 - As contribution to analysis of cross-cutting concerns such as procurement or non-tax revenue
- **In audit planning**
 - Risk analysis as input to annual audit planning
 - Risk analysis for specific questions or entities
- **In analytics / research**
 - Review change of performance over time





Roll out of the Framework



Next

steps



Input for UN / INTOSAI

HLPF 2019

INCOSAI 2019

Consolidate findings

Quality assurance

Individual country reports

Regional Report

Continue Piloting

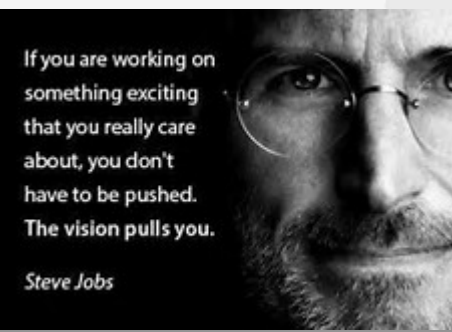
OISC-CPLP Countries

Crefiaf

Afrosai-E region



SAIs are empowered to understand their respective PFM environments in a holistic way, and actively participate in shaping and improving it in order to deliver upon SDG 16.4 (effective efficient transparent institutions)



If you are working on something exciting that you really care about, you don't have to be pushed. The vision pulls you.

Steve Jobs





Thank You
for your attention!