



# PUBLIC FINANCE MANAGEMENT

Virtual Module 3:

Control systems in PFM

## Control Aims in PFM

Effectiveness and efficiency of operations;

- ✓ Fiscal stability;
- ✓ Budget credibility;
- ✓ Reliability of financial reporting;
- ✓ Compliance with laws and regulations;
- ✓ Safeguarding against loss, misuse and damage;
- ✓ Reducing Fraud and Corruption.

## What PFM Controls?

- Overall Budget
- Expenditure controls
- Internal control
- Audit activities

3

## Remember the Budget Cycle?



Where in the Budget Cycle do controls take place?

4

## PFM Control Systems and Corruption

Some definitions...

### Fraud

Action that misleads to obtain financial benefit

Inside PFM system

### Corruption

Giving or receiving financial benefit to influence decisions/actions

Usually outside PFM system

5



## PFM Control Systems and Corruption

- ✓ Can help identify corruption at officer/internal level;
- ✓ Can help reduce a culture of corruption;
- ✓ Has limited ability to detect corruption at political level;
- ✓ Is only part of the armoury against corruption.

6



## Getting the basics right

### Financial compliance

- ✓ adequate control system;
- ✓ clear and transparent financial regulations.

### Control of expenditures and revenues

- ✓ controls performed by the ministry of finance, and other central agencies;
- ✓ controls performed within the spending units.

7 Jack Diamond 2013



## Common budgetary problems

- ✓ Approved budget is unrealistic.
- ✓ Extreme uncertainty concerning available resources, with quarterly or monthly allotments. In 2020, Covid-19 has demonstrated this.
- ✓ Extra-budgetary funds outside the budget process hoarded by spending units.
- ✓ Significant payment arrears not included in financial statements and approved budgets.
- ✓ Funds diverted to unauthorised purposes.



8



## Overall Budgetary controls

### Fiscal Rules enshrined in legislation

- ✓ Debt rules;
- ✓ Budget balance rules;
- ✓ Expenditure rules.
- ✓ Other

NB: Some countries combine two or more fiscal rules.

- ✓ Use of escape clauses in the event of crisis – what for COVID-19?

9



## Overall Budgetary controls

### Budget modifications

In-year budgetary adjustments:

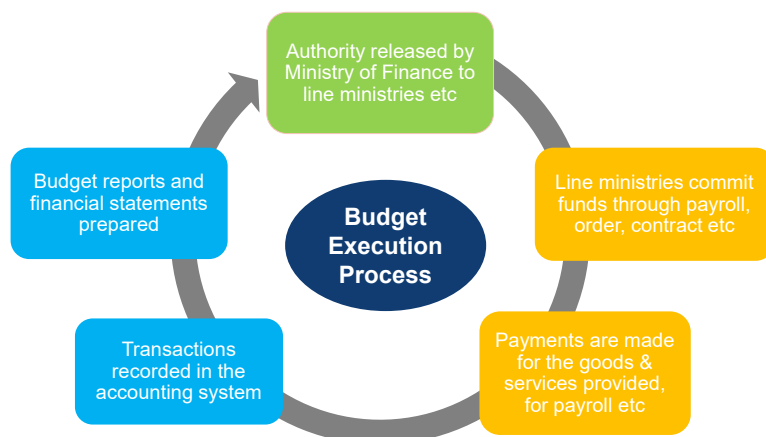
- Transfer of resources – across sub-codes
  - by line manager / ministry
- Virements – across budget headings (ministry, payroll...)
  - by Ministry of Finance / Treasury
- Contingency Budgets
  - Limits on usage e.g. “Emergencies”.
- Supplementary budgets (appropriations)
  - by Parliament

10



## Expenditure Controls

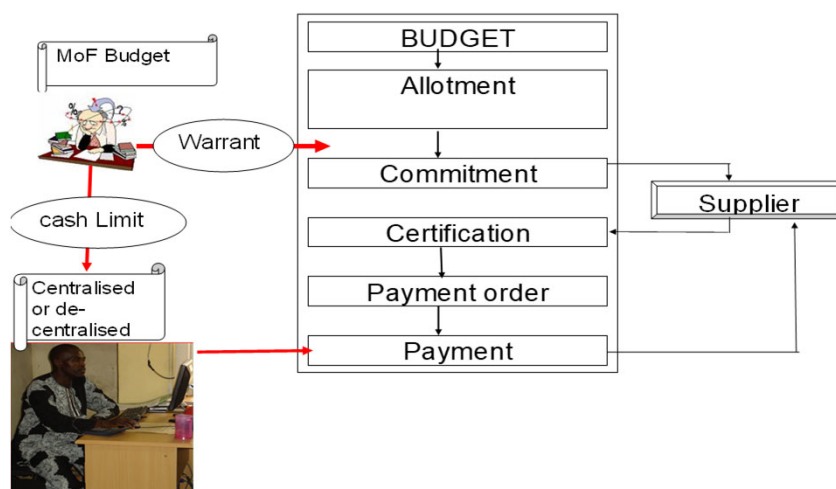
The release of Funds by the Ministry of finance



11



## Expenditure Controls



12



## Expenditure Controls

### Commitment control

- ✓ Ensures budget units only spend what appropriated by Parliament & released by the Ministry of Finance.
- ✓ Reduces payment voucher arrears.
- ✓ Improves effectiveness in planning.
- ✓ Increases the confidence in suppliers that they will get paid.
- ✓ Reduces the opportunity for rent seeking by payment offices.

13



## Expenditure Controls

### The vote book

123 6545	stationery		annual appropriation - €1000		
date	payee	description	order	paid	balance
15 May 2010	ABC Ltd	paper	€240		€760
1 June 2010	ABC Ltd	paper		€240	€760
5 June 2010	XYZ Ltd	printer paper	€260		€500
12 July 2010	XYZ Ltd	printer paper		€260	€500

14



## Expenditure Controls

### Control Activities

- ✓ Authorisation and approval procedures;
- ✓ Segregation of duties (authorising, processing, recording, reviewing);
- ✓ Physical & virtual controls over resources and records;
- ✓ Reconciliations – e.g. bank statement & cash book;
- ✓ Supervision.

15



16

## Expenditure Controls

### Monthly Expenditure Reporting

- Reflect the structure of the budget
- Show funds received, committed funds, expenditures and transfers, opening and closing balance of bank accounts;
- Non submitted Monthly Expenditure returns may result in suspension of further budget releases.





## Expenditure Controls

### Payroll Management; Payroll procedures, processes and risks

- ✓ Effective control is achieved by segregation of three sets of data files:



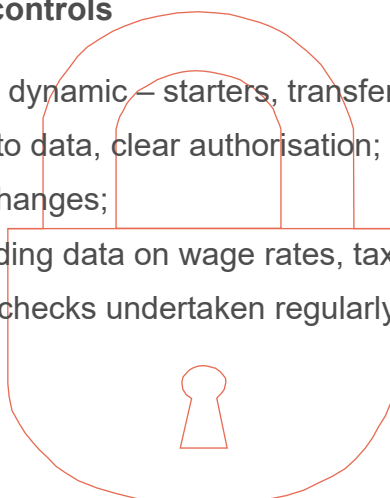
- ✓ Personnel and payroll data is to be updated promptly & may be linked or one database.

17

## Expenditure Controls

### Payroll Management; controls

- ✓ Personnel files are dynamic – starters, transfers, and terminations;
- ✓ Restricted access to data, clear authorisation;
- ✓ Audit trails for all changes;
- ✓ Controls over standing data on wage rates, taxation etc.;
- ✓ Payroll audits and checks undertaken regularly.



18

## Expenditure Controls

### Payroll Management; institutional arrangements

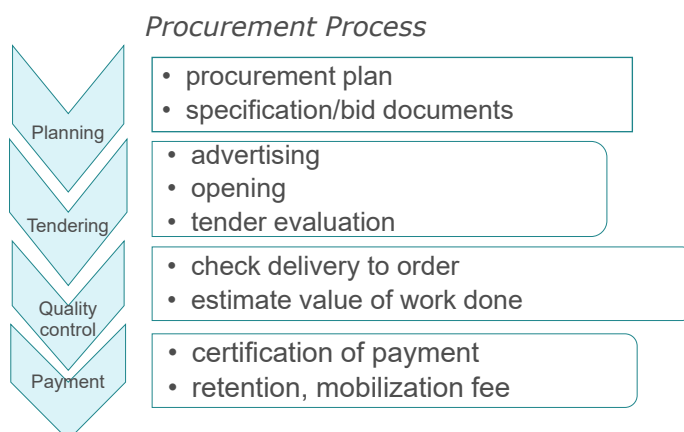
- Ministry of Public Administration – controls the number and grades of posts and the personnel budget;
- Public Service Commission – manages the appointment and promotion of staff (nominal roll);
- Above two functions may be combined;
- Central Payroll (Ministry of Finance) – often decentralised.

19



## Expenditure Controls

### Procurement process; where are the controls?



20



## Expenditure Controls

### Procurement approaches

- ✓ Standard list of suppliers
- ✓ Written quotations
- ✓ Formal tenders – pre-qualification

### Exceptions:

- ✓ Single source procurement
- ✓ Restricted tendering



21

## Internal Control

**Definition:** Internal control is a process, effected by management, designed to provide assurances on:

- ✓ Effectiveness and efficiency of operations;
- ✓ Reliability of financial reporting;
- ✓ Compliance with laws and regulations;
- ✓ Safeguarding against loss, misuse and damage;

22

## Internal Control

The **Internal Control Framework** consists of five interrelated components:

1. **Control environment;**
2. **Risk assessment;**
3. **Control activities;**
4. **Information and communication;**
5. **Monitoring.**

23



## Internal Control

**COSO Framework**

**Committee  
of sponsoring  
Organisations**



24

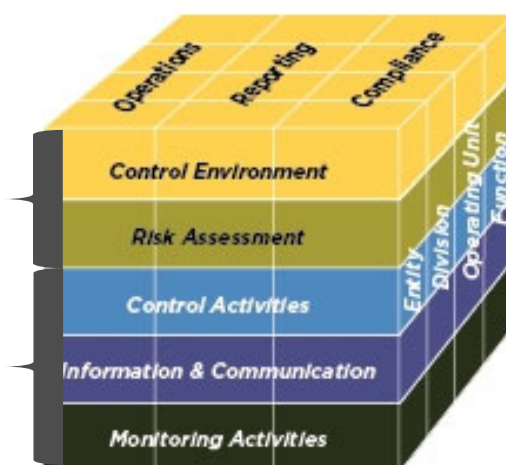
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## Internal Control

higher level/strategic aspects of the framework

basics of implementing internal controls

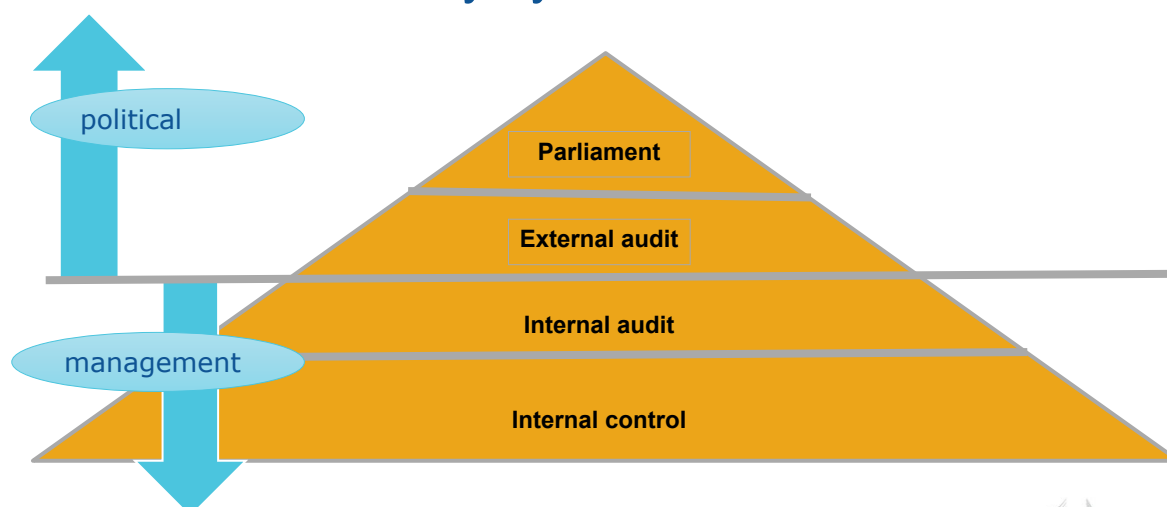


25

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## Audit and Scrutiny systems



26



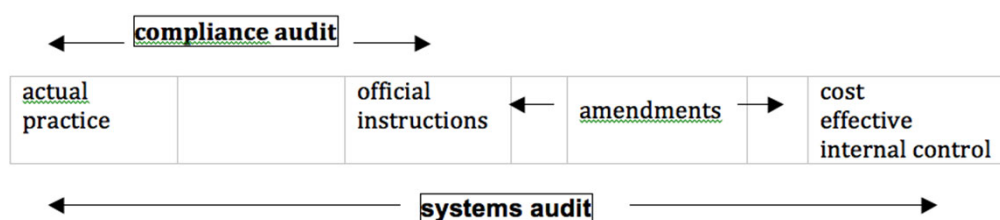
## Internal Audit

- ✓ Management tool to assist the executive
- ✓ Operationally independent unit checking that internal controls are working properly and making recommendations for optimization of controls.
- ✓ General Financial Inspectorate
  - reviews transactions, accounts and organisations;
  - compliance - financial laws & regulations;
  - corrective – analyse problems & recommend change;

27



## Internal Audit



- ✓ **Compliance with rules and regulations**
  - Easier to identify irregularities than poor internal control
- ✓ **Systems**
  - Examines system of Internal controls, checks and balances

28



## Internal Audit

- ✓ Internal audit's scope should include the entity's systems, procedures and locations;
- ✓ Internal audit should audit internal control systems, **risk management** and corporate governance procedures;
- ✓ Plan to cover the most significant (risky) systems each year.

29



## External Audit

Assurance to **Parliament** on:

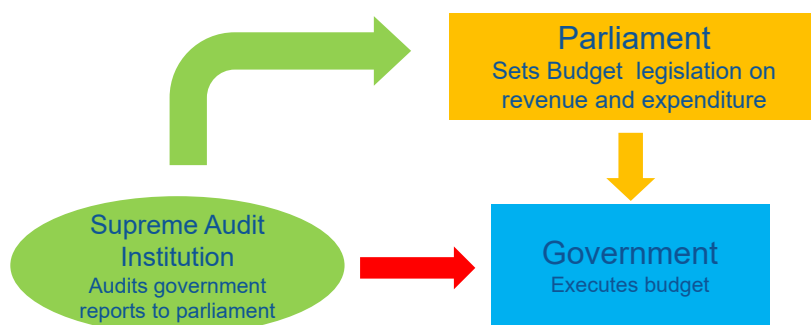
- ✓ **Regularity** and **probity** of financial transactions.
- ✓ Soundness of internal financial controls.
- ✓ The reliability of financial statements.

30



## External Audit

### ...the Accountability Cycle



31

## External Audit

### LIMA (1977) Declaration of the International Organisation for Supreme Audit Organisations (INTOSAI)

Two aspects of public sector audit of equal importance:

1. Traditional audit of legality and regularity of financial affairs is undisputed.
2. Audit of performance, effectiveness, economy and efficiency of public administration.

Up to each SAI to determine their relative importance.

32



## External Audit

### Certification of Public Accounts?

**Audit opinions** are typically classified as:

- ✓ **Clean** – OK
- ✓ **Qualified** – except for...  
– emphasis of matter
- ✓ **Adverse** – not OK
- ✓ **Disclaimer** – don't know

33



## External Audit

### Independence of the Supreme Audit Institution; Mexico Declaration, 2007

- The existence of an appropriate and effective constitutional/statutory/legal framework.
- The independence of SAI heads and members (of collegial institutions), including security of tenure and legal immunity in the discharge of duties;
- The freedom to decide the content and timing of audit reports
- The existence of effective follow-up mechanisms on SAI recommendations;
- Financial and managerial/administrative autonomy and the availability of appropriate human, material, and monetary resources.

34



## External Audit

### Timeliness of Audit Reports

- Audited financial statements and audit report to be submitted to parliament within 9 months (or before next budget passed to parliament) still challenging in some countries.
- Audit report should be made public as soon as submitted to parliament.

35



## External Audit

### Follow Up of Audit Reports

- Audit work plans include follow up on previous audit findings.
- Line Ministries provide evidence of follow up.
- Sanctions are applied (by management) for failing to implement corrective measures.

36



## Key messages

- ✓ Aggregate fiscal discipline enshrined in legislation through fiscal rules.
- ✓ Budget execution systems set the rules for expenditure management and compliance with legal appropriations.
- ✓ Internal controls and internal audit are an aid to management and operate throughout all parts of the PFM system;
- ✓ The Supreme Audit Institution provides an independent opinion of a government's finances.
- ✓ SAI independence & relationship with Public Accounts Committee (or Finance Committee) are key to give parliament assurance on government's financial performance.

37



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41



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