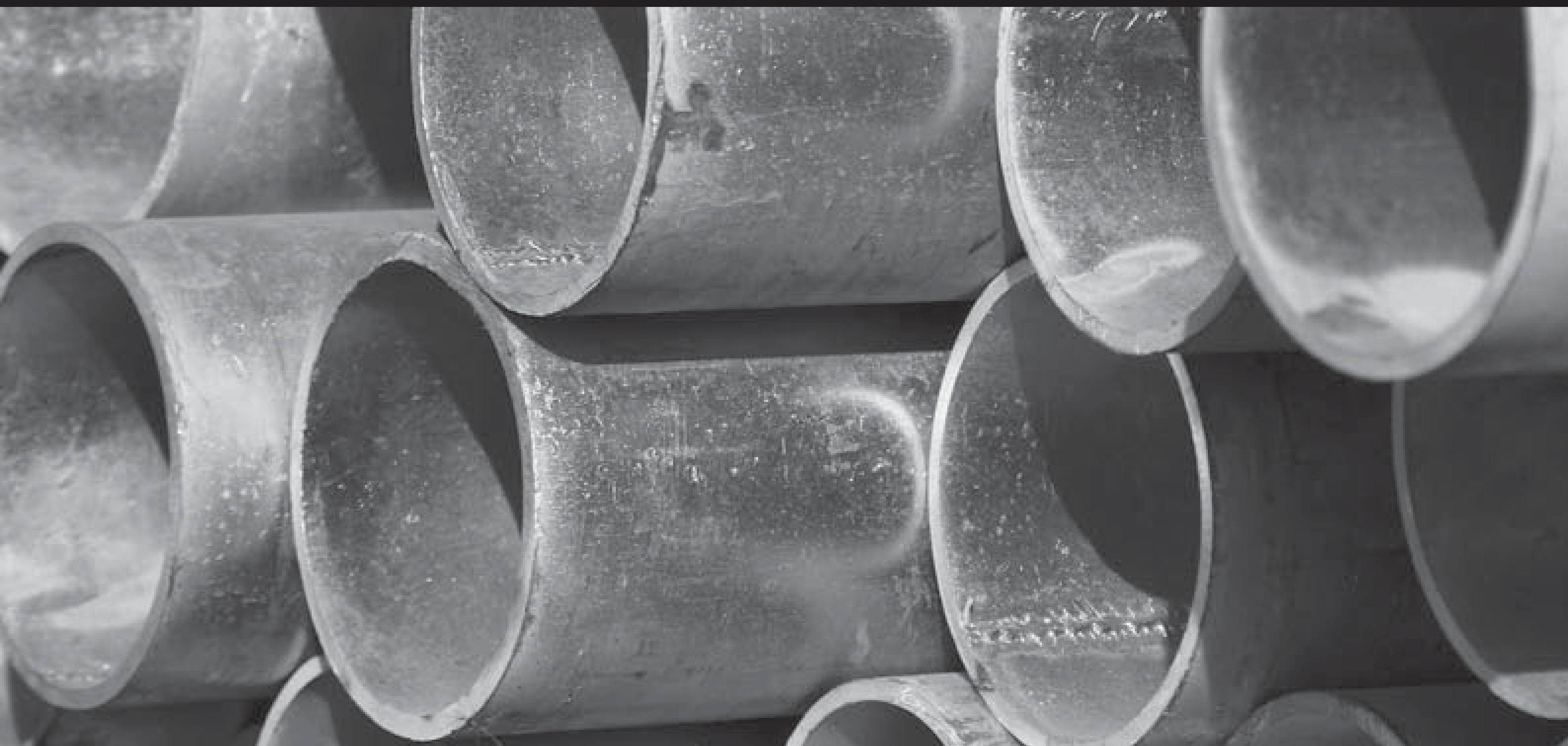
ACCOUNTANTS FOR BUSINESS

Improving public sector financial management in developing countries and emerging economies



ABOUT ACCA

ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants. We aim to offer business-relevant, first-choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management.

Founded in 1904, ACCA has consistently held unique core values: opportunity, diversity, innovation, integrity and accountability. We believe that accountants bring value to economies at all stages of their development. We seek to develop capacity in the profession and encourage the adoption of global standards. Our values are aligned to the needs of employers in all sectors and we ensure that, through our qualifications, we prepare accountants for business. We seek to open up the profession to people of all backgrounds and remove artificial barriers, innovating our qualifications and their delivery to meet the diverse needs of trainee professionals and their employers.

We support our 140,000 members and 404,000 students in 170 countries, helping them to develop successful careers in accounting and business, based on the skills required by employers. We work through a network of 83 offices and centres and more than 8,000 Approved Employers worldwide, who provide high standards of employee learning and development. Through our public interest remit, we promote appropriate regulation of accounting and conduct relevant research to ensure accountancy continues to grow in reputation and influence.

ABOUT ACCOUNTANTS FOR BUSINESS

ACCA's global programme, Accountants for Business, champions the role of finance professionals in all sectors as true value creators in organisations. Through people, process and professionalism, accountants are central to great performance. They shape business strategy through a deep understanding of financial drivers and seek opportunities for long-term success. By focusing on the critical role professional accountants play in economies at all stages of development around the world, and in diverse organisations, ACCA seeks to highlight and enhance the role the accountancy profession plays in supporting a healthy global economy.

www.accaglobal.com/accountants_business

This paper explores how public financial management can be improved and capacity strengthened in developing countries and emerging economies.

It explores common issues, lessons learnt and effective practice through a number of case studies where ACCA has worked with a range of governments, regulators and stakeholders to improve public financial management.

It draws upon specific case studies from Botswana, Pakistan, Vietnam, Zambia and Zimbabwe.

Introduction

There is an increasing focus on improving the quality of public financial management around the globe, with many countries in both the developed and developing world making important and impressive achievements in strengthening public financial management and governance.

Nonetheless, much still remains to be done. The public sector landscape is rapidly changing with an increasing emphasis on fiscal management and discipline, prioritisation of expenditure and value for money. As a result it is even more important that international donors, governments, national and local institutions, including regulators and professional accountancy bodies, work together in partnership to achieve long-lasting improvements, transparency and accountability in public financial management.

This paper explores how public financial management can be improved and capacity strengthened in developing countries and emerging economies. It explores common issues, lessons learnt and effective practice through a number of case studies where ACCA has worked with a range of governments, regulators and stakeholders to improve public financial management. It also draws upon specific case studies from Botswana, Pakistan, Vietnam, Zambia and Zimbabwe.

1. Why strong financial management is important

Public financial management is absolutely critical to improving the quality of public service outcomes. It affects how funding is used to address national and local priorities, the availability of resources for investment and the cost-effectiveness of public services. Also, it is more than likely that the general public will have greater trust in public sector organisations if there is strong financial stewardship, accountability and transparency in the use of public funds. It is important for governments to get it right because it impacts on a broad range of areas including:

- aggregate financial management – fiscal sustainability, resource mobilisation and allocation
- operational management – performance, value-for-money and budget management
- governance – transparency and accountability
- fiduciary risk management – controls, compliance and oversight.[1]

In addition, effective public financial management is important for decision making. Accurate financial information is often used as the mechanism to support decisions and ensure effective resource allocations.

> *Good financial management is responsible for not only protecting, developing, using resources, pushing and maintaining economic growth and increasing income, but also managing effectively and efficiently all national resources.*
>
> DR DANG THANG, PRESIDENT VIETNAM ASSOCIATION OF ACCOUNTANTS AND AUDITORS

In July 2009, the International Federation of Accountants (IFAC) G20 Summit in London and the World Bank emphasised the need to develop and strengthen the finance profession in developing and emerging economies to achieve stable and stronger financial management. At an Eastern and South African Association of Accountants General (ESAAG) conference in February 2009, the need to develop a professionalisation project for the public sector in Africa was identified as urgent and vital. Donors and lending institutions such as the World Bank, International Monetary Fund (IMF), Department of International Development UK (DFID), European Commission (EC) and Cultural Industries Development Agency UK (CIDA) continue to make funds available to build financial management capacity and curriculum development in financial training in a number of developing countries and emerging economies.

Additionally, accountancy bodies and organisations such as the International Organisation of Supreme Audit Institutions (INTOSAI) work collectively to develop both professional skills in finance and audit capacity, as well as disseminating best practice. Most recently, an accord was signed in October 2009 between INTOSAI and the donor community to ensure that there is a strategic approach for strengthening and developing supreme audit institutions (SAIs). The key goals for these combined institutions are to build sustainable financial capacity in public services and improve accountability and transparency in the use of public funds.

1. Michael Parry, *The Four Dimensions of Public Financial Management*, March 2010.

2. Why improving public financial management can be so difficult

Both the developed and developing countries continue to struggle with the increasing complexities of public financial management and the pace of change. Not least, finance professionals working within the public sector are concerned with improving financial management and budgeting, responding to changes in financial reporting, securing better regulation, strengthening institutions, improving risk management and governance, and eradicating fraud and corruption.

In addition, the spotlight is currently on public financial management as governments across the world increasingly struggle with achieving fiscal sustainability and managing fiscal risk. New and more sophisticated models and tools will be required to help governments deal with fiscal management. Also, there will be more than ever a focus on achieving effective resource allocation, particularly, in resource constrained environments. Governments will have to become smarter to ensure budgets are effectively linked to policy objectives and value for money is secured.

As well as the increasingly complex financial management landscape, the problems of the lack of strong leadership and political support, staff shortages, training and retention, poor reward systems and the lack of a public financial management infrastructure mean that the issues are more acutely felt in developing countries and emerging economies. For example, China is reported to have about 130,000 qualified accountants in the public and private sectors, fewer than half the estimated 300,000 it needs to support improvements in financial reporting and corporate governance and increase the rate of growth in China.[2]

In Botswana historically the wheel of change wields its way very slowly. It has taken 25 years to look within itself and to evolve by re-engineering its delivery of public services and processes. Governments are conservative in nature and don't want to or rather do not have the capacity to implement change robustly. Ideally systems and processes once implemented should be reviewed every 3–5 years to test their effectiveness, efficiency, relevance to the market and whether quality service standards are still being met.

MR LETSHOLO, SENIOR AUDITOR GENERAL, OFFICE OF THE AUDITOR GENERAL, BOTSWANA

2. http://www.accountancyage.com/accountancyage/news/2138619/shortage-accountants-hinders

3. Key drivers for change

A key driver for the public financial management programme was the need to free the country from the status of least developed country (LDC) by 2020. The government's strategy identified the direction of development and poverty reduction as well as stressing the importance of building public financial management at all levels to deliver better services for the poor. The objective of the programme was to promote a public financial management system to assure transparency and accountability through strengthening public financial management and capacity-building workforces.

DR BOUASY LOVANXAY (PRESIDENT, SAI LAOS)[3]

It is not surprising that the key drivers for improving public financial management vary from country to country, because of political, legal, social and economic differences. The five case studies discussed in this paper reveal some common drivers for change and illuminate ways of improving public financial management.

Key drivers for change

- Public sector financial management reforms lagged behind those in the private sector
- Skills deficit and retention issues
- Losses and waste in the public sector
- The need to improve accountability and transparency over public spending for the general public and tax payer
- Weak resource allocation
- Serious deficiencies in financial data and budget reporting
- Accounting and auditing systems were antiquated
- There was a need to comply with internationally accepted accounting practice
- The need to strengthen governance in a developing country
- The need to improve efficiencies and effectiveness in service delivery
- The legislative framework was weak.

Improving public financial management is not without its difficulties. The complexity of the issues, presence of multiple stakeholders and degree of political appetite for change mean that multifaceted approaches are needed. A government project for improving financial reporting and auditing in Pakistan, outlined in case study 1, shows why change was required and the difficulties that had to be addressed to improve public financial reporting and auditing.

3. Dr Bouasy Lovanxay (president, SAI Laos), *Public Finance Reform for Enhancing the Effectiveness of Public Expenditures and the Role of Supreme Audit Institution Laos*, 2009.

CASE STUDY 1:

KEY DRIVERS FOR IMPROVING FINANCIAL REPORTING AND AUDITING IN THE DEPARTMENT OF THE AUDITOR GENERAL OF PAKISTAN

In the early 1990s, as the government of Pakistan pursued its agenda of privatisation of state-owned entities and deregulation of the economy, the government realised that although private sector banking and business reforms were needed to attract foreign investors, there was also an urgent need to initiate financial management and governance reforms in the public sector. Government recognised that the efficient use of public funds depended on the availability of timely and relevant financial management information and the adoption of internationally accepted financial reporting, accounting and auditing principles, best practices and standards.

The accounting and auditing system and procedures of federal, provincial and district governments, controller general accounts and those of the auditor general of Pakistan were antiquated and required a complete overhaul. Serious deficiencies in financial data, systems and staff skills resulted in unreliable planning, budgeting and reporting and ineffective internal controls. Cash, asset and debt positions were unreliable, there were unknown commitments/obligations, and pensions and depreciation records were not kept up to date, causing uneven resource allocation in spending. This led to weak governance and accountability.

Whereas the issue for the Pakistan government was the need to improve financial reporting and auditing systems, the challenge for Zimbabwe was that of dealing with an acute shortage of qualified professionals working within the public sector. Botswana also had very similar issues to those in Zimbabwe. Although a relatively wealthy country, Botswana's public sector was challenged by its failure to match the rewards offered to professional staff by the private sector. Its civil service was dominated by expatriates, whereas the locals moved to 'greener pastures' in the private sector. In the case of Zambia, there was no specific programme for the public sector but it is now making steady progress on public finance reforms. Zambia's Vision 2030 and 5th National Development Plan set out a clear vision for wealth creation and poverty reduction; improving public financial management is pivotal to this reform.

4. Criteria for success

Strong leadership and the support and political will of national governments are vital to the success of any change programme for strengthening public financial management. There is no 'quick fix', as many of the improvements may require legislative, structural and cultural changes, which take a significant amount of time to implement and embed. They also require organisations to work together effectively at a strategic level so that optimum use is made of resources, skills and capacity.

This section illustrates some of the practicalities of improving financial management, and outlines helpful models for understanding how public sector organisations have instituted better public financial management over time. It also draws lessons from the case studies. Both the models and case studies highlight that effective public financial management reforms can only be achieved through proper planning, being realistic and keeping the approach simple.

KEY CHALLENGES

A review of the case studies highlights a number of key challenges that developing countries and emerging economies face for improving public financial management. These are outlined in Table 1.

Table 1: Key challenges and findings from the case studies

Challenges	Findings from the case studies: Botswana, Pakistan, Vietnam, Zambia and Zimbabwe
Strengthening the systems, processes and infrastructure for public financial management	The basic elements to support public financial management are sometimes non-existent or weak. Concerted effort is required by national and international institutions to put the basic building blocks in place.
Improving financial qualifications	Improving financial qualifications is a priority for public sector organisations. It is generally resource intensive and a balance has to be struck between funding targeted curriculum development and building capacity within the profession. Equal attention has to be given to developing the accounting technician qualification together with professional qualifications.
Developing skills that fulfil the basic job requirement	There is an acute shortage of qualified finance professionals working within the public sector in developing and emerging economies. The public sector is perceived by potential students as less attractive and less well rewarded than the private sector. Basic technical skills are often absent and continuing professional development and support are often not well developed. Students have reported that they were unsupported, as employers had no formal training structure and very few resources.
Developing public sector accountants/auditors for the future	Public sector bodies do not always appreciate the difference between professional and academic qualifications, and as a result a professionally qualified accountant is not given appropriate recognition in the salary and benefits system and is therefore less likely to stay within the public sector. Developing accountants for the future requires a concerted and sustained effort by employers, donors and professional bodies to work in partnership to build structures and professional accountancy capacity. Once a change programme is successful, it is likely that other partners and donors will become involved to take it further.
Improving cooperation between national governments and local and international institutions, eg state audit institutions, accountancy bodies, INTOSAI	The challenge is for key stakeholders such as national governments, SAIs, the donor community and accountancy bodies to work together effectively. The case studies illustrate that where there has been effective collaboration it is more likely that that there will be proven results.
Improving competences through support and development	Continuing professional development and support were often absent or not well developed. Employers had little in the way of structured continuing professional development (CDP) programmes that fulfilled both employer and individual development needs.

CASE STUDY 2

A CHANGE PROGRAMME AND ACTIONS FOR IMPROVING FINANCIAL REPORTING AND AUDITING FOR THE PAKISTAN GOVERNMENT

The Department of the Auditor General Pakistan set itself an ambitious agenda to improve the transparency of public sector accounting and auditing outputs. The change programme outlined below and actions taken have helped it to improve, but it is widely recognised that much still needs to be achieved.

Taking stock

Following a survey in government accounting carried out by the International Monetary Fund (IMF) and a diagnostic study sponsored by the World Bank, a sponsored project to improve financial reporting and auditing (PIFRA) was introduced in 1994. Project partners included DFID, Asian Development Bank and IMF.

The overall vision of PIFRA was to ensure transparency in spending both government and donor developmental funds and to make improvements in the accountability of government revenue and expenditure, strengthen decision-making and budgeting processes, and provide reliable information to the public. Overall, PIFRA was intended to improve public sector accountability and institutional capacity for economic policymaking and management.

Setting direction and getting started

PIFRA's aim was to enhance public sector efficiency and effectiveness by modernising accounting and reporting systems in line with best practices and standards of reporting, and replacing manual accounting and auditing systems with a computerised system. The desired results were:

- the production of reliable, relevant and useful accounts
- improvement of government audit procedures by adoption of internationally accepted auditing standards
- strengthening of financial management practices, and
- implementation of a governance and legal framework for an independent and effective audit function and internal controls.

PIFRA was divided into two stages – PIFRA I and PIFRA II. The desired outputs of PIFRA I were new financial rules and regulations, a new accounting model (NAM) and chart of accounts, improved accounting and auditing skills, decision-making support systems and accountability frameworks.

PIFRA I had the following five components.

- Developing accounting standards, reporting systems and financial procedures.
- Improving government auditing systems and standards.
- Developing human resource management, organisation and systems development.
- Provision of professional-level training and strengthening professional and specialist skills.
- Development of management information systems to support information technology requirements.

PIFRA II was a follow-on project focused on increasing the accuracy, completeness, reliability, and timeliness of intra-year and year-end government financial reports in Pakistan at the national, provincial, and district levels.

PIFRA II objectives included the following.

- Strengthening the government's financial management policy and capacity, including the role and the reach of the controller general accounts office, internal controls, and accounting skills requirements across the board.
- Modernising the auditor general's office and communication and change management to promote transparency and increase stakeholder awareness and ownership.
- Developing new-accounting-model based systems.
- Capacity building by restructuring the controller general accounts and district accounts offices, establishing internal controls, improving internal audit and strengthening research and development.

Making it happen

A number of lessons were learnt from PIFRA I. At the end of implementation, the department of the auditor general concluded that, as improved public sector accounting and financial systems enhanced public sector accountability and supported improved institutional capacity for economic policymaking and management, PIFRA II would be rolled out. Whereas PIFRA I's scope included the development of manuals and system implementation at a few selected sites, PIFRA II focused on comprehensive implementation of the automated system.

Obtaining human resources for change management and especially to enable the move from a manual to an automated system required extensive capacity building, communication and stakeholder engagement throughout. Linkages between budget development, planning, treasury, tax and debt management needed to be developed.

PIFRA II faced a number of challenges, the most important being a heavy human resources commitment to build capacity in accounting and auditing knowledge and skills. The success of PIFRA II depended on the understanding of the new system, adopting new office routines and processes, and acquiring new professional skills and competences. A need emerged for more accounting and auditing specialists and for a major realignment in the structure of their career paths.

Key achievements have included the following.

- A government finance system for accounting has been developed and implemented.
- Financial statements of the government are now compliant with the international public sector accounting standard (IPSAS) for the cash basis.
- SAP has been implemented for budgeting and accounting at all tiers of government.
- Preparation of annual financial statements which previously took about nine months after close of the financial year are now prepared within three months.
- A risk-based audit methodology complying with international standards has been developed and implemented.
- Computer assisted audit techniques (CAATs) software has been acquired and is being successfully used for audit at federal, provincial and district levels.
- A nationwide integrated audit management system is being implemented to facilitate top down control, macro level planning and standardisation of work and information management.
- Timelines for submission of audit reports to the legislature has reduced from 33 to 13 months of the close of the financial year and for the current audit year audit reports will be submitted within 8 months of the close of the financial year.

ACCA worked in partnership with, and provided support to, the auditor general's office. Since adding the controller of general accounts and the auditor general's office to the list of ACCA approved employers in 2007, around 46 ACCA members and trainees have supported the implementation of the accounting and auditing components of PIFRA II. ACCA members have also helped with the streamlining of audit functions in government ministries and institutions and have taken a leading role in project management.

Despite the onerous challenges of change management, new technology, human resources skills and a knowledge gap, PIFRA has raised awareness of the importance of financial reporting and auditing in the public sector. The scale of PIFRA has been enormous. Its complete success depends upon sustained long-term efforts and developing a culture of awareness of the importance of reliable accounting records and of having auditing tools aligned to best practices.

By making it possible to provide accurate, complete and timely financial reports, I believe PIFRA has morphed into a symbol of excellence in public financial management.

MASUD MUZZAFAR, CONTROLLER GENERAL OF ACCOUNTS

CASE STUDY 3

PUBLIC FINANCIAL MANAGEMENT REFORM IN ZAMBIA

Taking stock

In the case of Zambia there has been no specific financial improvement programme for the public sector. Historically, the public sector has faced capacity constraints compounded by inadequate information processes and systems. In addition, non-compliance with internal controls had led to poor predictability of government expenditure and a lack of analytical capacity. Similar to other African countries, the public sector has also struggled to attract qualified professional accountants to the sector.

Setting direction and getting started

The former president of Zambia laid key foundations for public sector reform through its Vision 2030 strategy and 5th National Development Plan. The government's National Development Plan priorities included a commitment to good governance and three levels of accountability: political accountability, administrative accountability and financial and budgetary accountability.

In relation to financial and budgetary accountability, Zambia is making steady progress on public financial management reforms. It has amended the Public Finance Act over a number of years, strengthened accountability and significantly contributed to re-defining structures and the functions of key government offices, such as the minister of finance and auditor general.

The public financial management reforms have been supported by the donor community through various reform initiatives such as 'public expenditure management and financial accountability' (PEMFA), a World Bank financial management reform programme for the public sector.

Making it happen

Further reforms are underway including the revamping of internal control functions. Audit committees in line with ministries are being set up as a new requirement enshrined in the Public Finance Act 2004. Most recently, the minister of finance announced the introduction of the single national treasury account and the supporting legal framework is being actioned. This is one of a number of reforms set out by the National Constitution Commission (NCC) which is currently reviewing the country's constitution. Other changes have included increased training and support to existing finance staff, as well as a review of structures, roles and responsibilities.

CASE STUDY 4

CHANGING PERFORMANCE AUDIT IN VIETNAM

One of a number of challenges for the state audit of Vietnam was the need to introduce step-by-step change to performance audit.

Taking stock

Over the last few years it would appear that performance audit was not of much concern for state audit, as claimed in a paper 'Innovation in Administering Public Expenditure and the Role of State Audit Vietnam'. Financial and compliance audit have been given the most prominence at the expense of knowing the socio-economic impacts of public expenditure allocations. In other words, despite legal compliance, the audit does not show whether there has been an improvement in public goods or basic services. Performance audit has been identified as one of the greatest challenges to the state audit office of Vietnam.

Setting strategic direction

It is recognised that to improve the quality and performance of auditing the following requirements need to be met.

- A switch in focus to output-orientated budgeting as opposed to input-based budgeting.
- The creation of a database and of norms for monitoring and evaluating expenditure.
- Building capacity to enable analysis and study of the impact of policy and resource allocations on beneficiaries.
- Meeting these requirements will require step-by-step change.

CASE STUDY 5

DEALING WITH THE ISSUE OF A SHORTAGE OF QUALIFIED PROFESSIONALS IN ZIMBABWE

In Zimbabwe the issue was an acute shortage of qualified professionals working within the public sector. This case shows how a strong partnership approach can help in addressing issues that some people would consider insurmountable.

Taking stock

The issue for the Zimbabwean government was an acute shortage of qualified professionals within the public sector. This needed to be urgently addressed.

Setting direction and getting started

To improve the numbers of accounting and auditing specialists, ACCA has worked in partnership with the Public Services Commission (PSC) and the auditor general's office to increase capacity and address the skills shortage. The partnership helped to support the auditor general's office in recruiting, training and retaining professional staff.

Making it happen

ACCA worked with its partners on ways of using quality training as a recruitment and retention tool, improving the conditions of service for finance professionals and training support, and on introducing a system of mentoring for trainees.

As a result, professional qualifications such as ACCA's certified accounting technician's qualification (CAT) and the diploma in financial management (DipFM) were given appropriate recognition within the civil service salary and benefits reward system. For the first time, finance professionals were included in the technical categories together with other professionals such as engineers and doctors. This provided individuals with an increased sense of value and status.

As part of the change programme, the auditor general (AG) became an approved employer with the capacity to train auditors. Mentoring for trainees was provided by his qualified staff as well as by the external audit firms that undertook subcontracted work. To ensure that there was adequate breadth and depth in the coverage of the audit competences, the trainees were seconded to external audit firms and given an opportunity to be seconded to other regional AG offices. Both the employer and the students were also supported with regular guidance.

Public sector-specific continuing professional development (CPD) events were arranged to deal with the unique requirements of public sector accounting and auditing, such as the need to demonstrate value for money (VFM). Funding was provided from the AG as well as by donors, who paid for expenses and exam fees. In 2009, the African Development Bank (ADB) paid for a range for initiatives to support 48 members and students from the AG's office to increase accountancy and auditing capacity.

Keeping on track

These changes have led to an increasingly professionalised civil service in which accountancy students and members are supported, and to an increase in the numbers of professional accountants working in government, particularly in the auditor general's office. There is a general sense that the civil service is turning a corner in the recruitment and retention of professional accountants. As a result, it is likely that more partners and donors will be prepared to support similar capacity-building initiatives within the public sector.

CASE STUDY 6

PUBLIC FINANCIAL MANAGEMENT AND CAPACITY BUILDING WITHIN BOTSWANA

Botswana had very similar issues to Zimbabwe in relation to staff retention and capacity building. A number of specific public financial management challenges were also identified by the office of the auditor general (OAG).

Taking stock

Although Botswana is a relatively wealthy country, its public sector had the challenge of matching the rewards offered by the private sector. Its civil service was dominated by expatriates while the locals moved to more rewarding careers in the private sector. Also, it faced a number of public financial management challenges. These were identified by the OAG as:

- a need to update legislation supporting public financial management
- a need to strengthen the capacity of the offices of the auditor general and accountant general
- a lack of controls in the new computerised accounting and budgeting systems
- accounting processes and ledgers which were not kept up to date
- an inadequate cash accounting system used by government ministries and local authorities.

Setting direction and getting started

There was a strong political drive by the government to improve service delivery to the public in all levels of government ministries and local authorities. Public sector financial management reforms lagged behind those in the private sector and public expectations of the quality of public services were not met.

The government agreed that a re-engineering of government service delivery and performance management was necessary to create operational efficiencies and to achieve service delivery improvements. This was driven by its 'Vision 2016', which includes objectives for:

- an educated and informed nation
- a prosperous, productive and innovative nation
- an open, democratic and accountable nation
- a moral and tolerant nation.

Strategic outcomes were established in line with the National Development Plan and an operational plan was drawn up. Workshops were held across ministries to develop a framework for an integrated results based management approach. This was accompanied by an overhaul of the organisational structure and competencies to link with strategic outcomes and service delivery.

Making it happen

A significant investment was made by the government in ensuring the necessary skills and competencies were put in place to achieve the outcomes set in its operational plan. A consolidated fund was utilised for training public servants under the direction of the Ministry of Education. The OAG had entered into an institutional capacity building co-operation with the Swedish National Audit Office (SNAO) and the African Organisation of Supreme Audit Institutions (AFROSAI-E). This allowed the OAG to learn from good practice and strengthen its core auditing services. SNAO interventions were aimed at:

- improving financial management audits
- improving performance audits
- assessing organisational effectiveness.

In addition, ACCA, in partnership with the auditor general (AG), worked on a plan similar to that followed in Zimbabwe. The AG became a registered employer with the capacity to train auditors. Mentoring for trainees was provided by his qualified expatriate staff as well as by the external audit firms that undertook subcontracted work.

A practical experience requirement (PER) that was specifically tailored to their type of work and the level of progression within the exams was developed in partnership with the AG. This was based on the competence matrix used by the Big Four audit firms. It was followed through with in-house training and coaching of both trainees and their supervisors on how to implement PER. This included sample reviews of PER records and discussions on the lessons learnt. As a result of these initiatives trainees tended to stay with the employer for longer periods as they appreciated the structured approach to their professional development.

Overall progress has been made on the specific public financial management challenges. A new computerised budgeting system has been successfully implemented across all ministries, internal controls were strengthened which has facilitated improved budget planning and control of expenditure and performance tools have been introduced. As well as revisions to the Finance and Audit Act there was a directive by the Ministry of Finance to build financial capacity and capability.

Some successes have also included, the establishment of a corruption prevention committee (CPC) in each ministry to monitor and review reports and fraud cases and a public procurement and assets disposals board to review the awarding of government tenders for public expenditure on medical equipment and roads. Although significant progress has been made the government and the OAG are realistic about what still needs to be achieved in terms of continuing to retain the quality of trained finance professionals within the public sector and build on the reforms to date.

A FRAMEWORK FOR BETTER FINANCIAL MANAGEMENT

A number of models have been developed for helping organisations to improve and assess how well their public financial management functions are performing. We have outlined three models and diagnostics which can assist in improving public financial management. There are many more, but in our view these are perhaps the most helpful and have had proven results.

The Audit Commission model

This model, developed by the Audit Commission in England, uses the metaphor of a journey, in which one starts at one place and wants to arrive at another. The model identifies five key improvement phases: taking stock, getting started, setting strategic direction, making it happen and keeping on track. This allows one to gain a better understanding of how organisations have improved public financial management over time.

As reflected in the case studies and this model, public sector organisations seeking to improve financial management share some similar characteristics. Quite simply put, there are four elements that have been applied to organisations that have successfully improved public financial management. These are:

- clarity of purpose and strategic direction
- effective political and managerial leadership
- the basic building blocks for achieving change
- driving and sustaining change.

Public sector organisations can measure their progress against these four elements when embarking on a change programme, as outlined in a slightly adapted version of the Audit Commission's model.

This model is helpful for public sector organisations in assessing whether they are at an early stage on their improvement journey or have made significant progress. It is not the only model for improving public financial management, but arguably it is one of the most effective. The model can be used to complement those instruments for measuring success that donor institutions, governments, national institutes and regulators already use. It is particularly useful for taking a strategic overview, prioritising and ensuring that the focus is clearly on the issues that need to be addressed.

Table 2: Assessing progress towards strong public financial management

	Taking stock	Setting direction	Getting started	Making it happen	Keeping on track
Clarity of purpose and strategic direction	Identify the reason for current problems, for example, a weak legislative framework and policies for public financial management; lack of compliance with international accounting standards; poor financial management; serious budget deficiencies, losses and waste; lack of financial skills and capacity, etc.	Key players clarify the direction, allocate resources to priorities and set milestones.		Place an emphasis on creating the frameworks, structure and culture of strong financial management.	Avoid getting distracted by too many priorities.
Political and managerial leadership	Key players such as the government, donors, national institutes and regulators consider what the response should be.	A change programme is developed covering a specified period with risks and resources aligned to it.	Strong leadership is required together with good communication. Early successes should be publicised to send positive messages to organisations and donors.		Leaders are more self-aware and reflect on lessons learnt to deliver and improve on public financial management.
Basic building blocks	Key players assess the current state of public financial management.	The emphasis should be on addressing the major areas of concern and attending to the risks.	Invest in building up capacity and skills to deliver the project. Stop peripheral activities and projects that detract from the change programme.	Implement strong performance management and partnership working at a strategic level.	
Driving and sustaining change	Key players assess the capacity, build critical mass and judge the likely pace of improvement.		Make an early investment in improving capacity and skills, but with emphasis on building momentum.	A stronger organisation builds infrastructure, systems and processes for public financial management.	Institute regular reviews to learn and consolidate improvement.

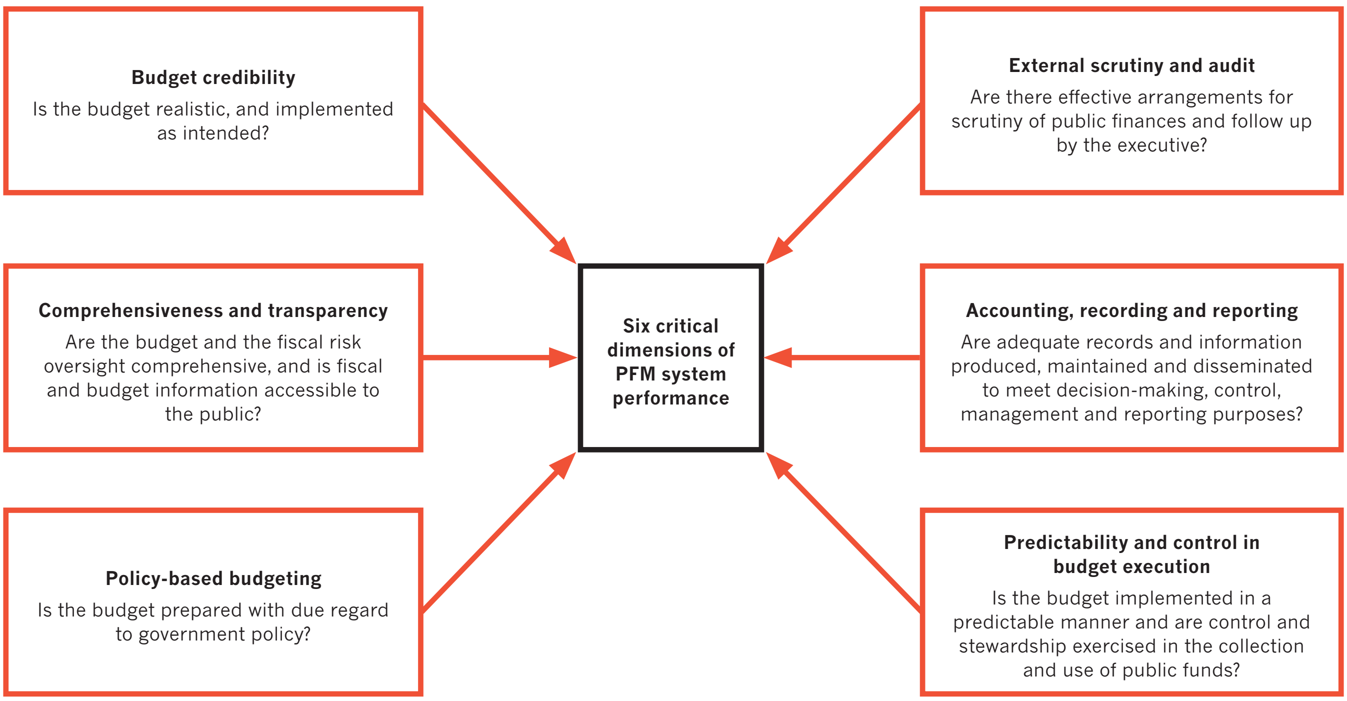
Adapted from: Audit Commission, *Improvement Through Better Financial Management*, 2004.

Public financial management measurement framework model

A second model is the public financial management (PFM) measurement framework developed by the Public Expenditure and Financial Accountability secretariat (PEFA), the World Bank and IMF. This performance measurement framework is mainly focused on governments, but can be applied to other parts of the public sector. The model sets out high level performance indicators which can be used to assess performance. There are six critical dimensions to the model as set out below.

The advantages of using this model to assess performance on improving public financial management are that it:

- enables an integrated assessment of performance of PFM systems
- demonstrates progress in PFM performance over time
- enables regular, rigorous, evidence-based monitoring by domestic and international stakeholders
- provides a common information pool on PFM performance.



Source: PEFA, Public financial management (PFM) measurement framework

Ten steps to success

A third useful framework for improving financial management was developed by HM Treasury Financial Skills Advisory Panel (UK), 'Doing the business: embedding financial management skills in government' (2008). It reviewed the workings of the government department board, business and finance functions across government departments. It outlined ten steps to success which provided government departments with a benchmark against which to measure their own performance.

By following the ten steps to success it is hoped that government departments in the UK will operate and do business in a more effective way. A government department board will have a stronger grip on the business and will be more equipped to drive the change agenda. Management will have a clear of view of what it needs to deliver and the chief finance officer and his finance team will be better placed to focus on delivering value for money. Above all, the finance department will be fully engaged with the business at all levels and deliver the best possible outputs and outcomes.

1. Act now to kick-start good financial management skills in your organisation.

It is never too soon to start. Whatever the current level of financial management skills and awareness in the organisation there will be potential – almost certainly huge potential – to improve. The drive needs to start at the top: it is critical the Permanent Secretary and departmental board and all of its executive and non-executive members, want good financial management to be at the heart of the business, and are committed to it and are consistent in promoting and supporting its application.

2. Ensure finance is at the heart of developing your vision and business strategy.

Without this commitment the board not only runs the risk of flawed planning and poor decision making but failure to embed sound financial principles into the management of the business as a whole.

3. Start rolling out and embedding good financial management across your business today.

The principles of sound financial management must be integrated into the professional development and performance management of all managers. This can be tackled through a variety of means including awareness-raising and training and development.

4. Invest in people development and training needs analysis.

Different financial skills and levels of acumen and awareness are required in different parts of the organisation. Identify the distinctive financial competencies needed in different areas of the business from Non-Executive Directors to non-financial managers, from the Policy Unit to operational front-line delivery, and tailor training, development and support to address them.

5. Remember the importance of communication and engagement skills.

This is about a step change in the quality of engagement between finance and non-finance professionals. It includes skills in relationship building, communication, listening and influencing.

6. Keep it fresh and current.

This means regularly reviewing the skills and competencies needed by and available to the business. It means looking over the horizon to anticipate tomorrow's needs and planning (and succession planning) to meet them. It means scanning for new ideas and for better practice and performance and using these resources to improve the department.

7. Reward and celebrate good financial management; tackle poor financial management.

To attract and retain the best talent, government will need to rethink its strategy in relation to pay and conditions. It will need to ensure that senior managers' rewards reflect in an appropriate way their financial management skills and performance. Equally importantly, managers who perform poorly in this area by, for example, failing to consider the financial implications of different policy options, should be made aware of their failings and of the imperative to remedy their shortcomings in the future.

8. Start taking active steps to develop stronger leadership skills within your business's finance function.

The CFO must have a wide range of skills including the ability to lead and develop a finance function which meets business needs and to support the building of financial management skills and capacity elsewhere in the organisation.

9. Keep it simple.

The key to success is being able to get things done. The role of finance and sound financial principles must be easily understood and the benefits clearly defined. Finance needs to be seen as part of the solution not part of the problem.

10. Temper ambition with realism. Recognise that becoming world-class takes time.

Aspiring to world-class performance is commendable. But for most organisations it represents a very challenging target. What is more this type of transformational change is as much about creating a different climate, changing behaviours and culture as it is about changing systems and processes. It requires concerted action and sustained commitment over an extended period.

Source: HM Treasury Skills Advisory Panel, Doing the Business: Embedding Financial Skills in Government, 2008.

5. Conclusion and lessons learnt

It is hoped that this paper has given an insight into the scale and complexities of public financial management issues that often need to be addressed in developing countries and emerging economies. More importantly, it has shown how some issues have been successfully overcome and the lessons learnt and it provides useful guidance for helping organisations to improve public financial management. Key lessons learnt include the need to be realistic about what can be achieved, and to set priorities and time scales. Sustainable public financial management requires strong leadership, a long-term commitment and momentum, effective partnership working and strong project management. There will be some early successes and it is important that these are communicated to facilitate long-lasting process and cultural change for sustainable public financial management.

As highlighted in this paper, ACCA is committed to working in partnership with governments, accountancy bodies, regulators and the donor community to help improve public financial management in developing and emerging economies.

To find out more about our work please contact Gillian Fawcett, head of public sector. gillian.fawcett@accaglobal.com

Useful signposts

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