Updating the PEFA Performance Measurement Framework

Comments from ACCA to the PEFA Secretariat
30 October 2014

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ACCA welcomes the opportunity to comment on the updated PEFA Performance Measurement Framework. The completed questionnaire (see below) provides comments on the proposed changes to the Framework together with some observations on other measures.

Further information about ACCA's comments on this matter can be obtained from:

Chris Ridley
Public Sector Policy Manager
Email: christopher.ridley@accaglobal.com

29 LINCOLN'S INN FIELDS
LONDON WC2A 3EE
UNITED KINGDOM

T +44 (0)20 7059 5000
F +44 (0)20 7059 5050

www.accaglobal.com

1. **In your opinion, are the following changes introduced in the draft updated indicator set relevant? Is the suggested formulation adequate? Please provide comments to support your opinion that could help us improve the draft version.**

	Relevant: Fully agree	Relevant: Partially agree	Relevant: Disagree	Adequately formulated (Y/N)	Comments
Introduction of new indicators					
PI-CFS	√			Y	A three year time horizon might be too short. A slightly longer period of say 5 years minimum may provide an enhancement in the scoring method. On measure (iii) it is important to set out which forecast will be taken into account (e.g. initial planned expenditure or revised forecast later in year). The term 'originally forecasted' is open to interpretation.
PI-PIM	√			Y	The definition of 'major project' should be refined as both first and last bullets of the current definition could lead to a large number of small projects qualifying. As an alternative it could be better to stick with the second bullet and simply add 'Other projects with a material level of expenditure for the MDA over their life cycle'. The definition also needs to cover those substantive programs made up of a number of smaller inter-related projects. The measures might further identify the fit of the major projects with the fiscal strategy (i.e. the project should not be undertaken if it is not contributing to public sector strategy).
PI-PAM		√		Y	We suggest that measures (i) and (ii) should be combined. The descriptor should make clear that any major asset not valued is still disclosed with reasons why no valuation available. There is the potential to add a further measure to identify whether existing assets held are being actively used in the delivery of public services. MDAs might simply be holding on to historic assets if no incentive to do otherwise.

29 LINCOLN'S INN FIELDS
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UNITED KINGDOM
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F +44 (0)20 7059 5050
www.accaglobal.com

		Relevant				
Removal of indicators						
	PI-4				n/a	
	D-1				n/a	
	D-2				n/a	
	D-3				n/a	
Replaced/restructured indicators						
	PI-7			√	N	This indicator is subjective as currently drafted. A better measure would be to have assessment on whether (i) clear fiscal boundary established and (ii) whether this captures all substantive public sector expenditure and/or income over which the government exercises control and holds the risk.
	PI-12	√			Y	
	PI-13		√		Y	PI-12 and 13 could be combined by saying 'medium term financial framework with supporting financial forecasts'.
	PI-14			√	N	On (i) to (iii) all entities collecting revenue on behalf of the government <u>must</u> provide guidance to payers. The measure should therefore be on quality of information provided rather than percentage doing so. On (iv) we suggest measuring amount by duration of debt (i.e. debtor days) recorded in summary forecasts, in-year reports and annual accounts.
	PI-15			√	N	As above for (i) the measure should be based on quality of data provided rather than percentage entities doing so.
	PI-20			√	N	Measures (i) and (ii) are specific and not all embracing. Instead we suggest the measures need to cover (a) roles and responsibilities of officials clearly defined and documented; (b) controls including levels of authorization and segregation of duties clearly defined and documented and (c) individuals made aware and then held accountable for maintenance of controls. On (iv) the amount rather than percentage of payments made within the rules is better measure. For example, a percentage would not necessarily pick up large single payments if large numbers of small value transactions are a common feature. A measure for quality of the payment process should also be considered to identify accuracy and how quickly payments are processed after they have been authorised.

29 LINCOLN'S INN FIELDS
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UNITED KINGDOM
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F +44 (0)20 7059 5050
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		Relevant				
	PI-22	√			Y	
	PI-23		√		N	Both measures (iii) and (iv) could be subsumed within the first two measures. The latter simply by stating performance targets should be monitored against outturn of the previous two financial years.
New dimensions added to existing indicators						
	New PI-2(ii)		√		N	While it is important to identify significant shifts in expenditure patterns it is not necessarily an adverse performance issue. Rather than simply measuring a percentage degree of variation it is more important to get adequate disclosure of reasons, particularly if the variance is above a set tolerance.
	New PI-9(ii)	√			Y	The measure might be enhanced by clarifying that significant liabilities when grouped together should also be disclosed. Otherwise there is the danger that liabilities treated separately to bring below materiality level.
	New PI-21(iv)	√			Y	The measure could be enhanced by adding oversight of internal audit work, for example by an independent Audit Committee.
	New PI-26(iv)	√			Y	
	New PI-28(iv)	√			Y	It would be unlikely for all Committee reports to be debated in the full chamber of the legislature. Therefore, it might be better to clarify that such action is limited to exception (i.e. adverse audit report).
Removed dimensions						
	PI-17 (iii)				n/a	
Shifted dimensions						
	PI-4(ii) to new PI-17(ii)	√			Y	
	PI-9(ii) to new PI-8(iv)	√			Y	
	PI-11(iii) to new PI-27(iii) + vice versa	√			Y	

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UNITED KINGDOM

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		Relevant				
	PI-17(ii) to new PI-16(i)	√			Y	
Changes to score requirements in other indicators/dimensions						
	[Specify dimension]					
Default for ‘D’ ratings (“does not meet requirements for score ‘C’ or higher”)						

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LONDON WC2A 3EE
UNITED KINGDOM
T +44 (0)20 7059 5000
F +44 (0)20 7059 5050
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2. Are there other issues the draft version of the updated indicator set does not address or cover adequately? What are they? How could they be better addressed or covered?

	Relevant			Adequately formulated (Y/N)	Comments
	Fully agree	**Partially agree**	**Disagree**		
Introduction of new indicators					
PI-1		√		N	We have identified scope to simplify P1-1, P1-2 and P1-3 as currently drafted, particularly given a range of uncertainties attached to planning long-term. We support separate reporting suggested by P1-2 to differentiate between administration and other externally driven (e.g. social benefits) expenditure; also revenue (current running) costs from longer term investment expenditure. However, a percentage measure does not always reflect the magnitude of the financial consequence (e.g. small percentage on a large budget can amount to a significant financial deviation, whereas a large percentage on a small budget might not). An alternative measure would be to compare expenditure against government income raised (e.g. taxes excluding borrowings). In addition, expenditure could be compared as a percentage against GDP.
PI-2		√		N	See above.
PI- 3		√		N	See above.
PI- 9		√		N	The suggested use of audited annual accounts to manage financial risk in AGAs is not sufficiently robust given they will be prepared too late after the event and contain historical information only. Instead

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F +44 (0)20 7059 5050
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		Relevant				
						regular updates would be a better indicator of significant financial risks with prior clearance of commitment to incur if appropriate.
	PI-19	√			N	Adopting a percentage for measure (ii) might not capture key data if the sample includes a large number of small contracts to obscure a few large value contracts. We suggest adding 'x% together with any significant individual large value contracts'
	PI-25		√		N	This indicator could be improved by linking expenditure incurred with outcomes on public services delivered in the form of more comprehensive Annual Report (often referred to as integrated reporting). This should ideally incorporate the Annual Accounts.

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3. Could you share your views about the arrangements presented in the accompanying note to support comparability over time? Do you have any suggestions to complement these arrangements?

See comments already provided.

4. Could you share your views about the transitional arrangements presented in the accompanying note? Do you have any suggestions to complement these arrangements?

We have nothing to add on the transitional arrangements proposed.

5. Would you like to share any other comments on the draft updated indicator set?

Where possible all performance measures should be achievement based rather than simply measures of activity undertaken. We believe this is important because simply undertaking a set task might not necessarily achieve the outcome sought. For example, it is possible to ensure a budget is fully spent within a financial year, but this does not necessarily mean that value for money has been achieved.

6. Do you have any suggestions for the overall update of the framework, including, for example, the organization/grouping of the indicators, the format/content of the PFM Performance Report, the Summary Assessment, and the general guidance provided in the Framework booklet?

We believe that effective performance management is likely to be best achieved if measures are strategically structured and not too numerous. This is not always achieved in the updated Framework document which has in effect 30 categories, each containing a series of measures with a degree of overlap between a number of them. The Framework could be much improved if it was structured so that a smaller number of strategic measures were included. These would be underpinned by other operational measures. These could follow the principles used to underpin the updating of the Framework:

- Fiscal strategy
- Strategic allocation of resources
- Effective and efficient service delivery or Managing performance
- In-year financial management (including forecasting, debt and cash management)
- Compliance or Governance (including effectiveness of controls, risk management and audit)

The sections underlined reflected potential additional priorities or alternative broader categories.

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