A Guide to Good Practice Financial Management

September 2005

FOREWORD

Over the last two decades governments around the world have committed to implementing public sector reforms with the objective of improving efficiency and effectiveness of public sector performance. Fiji is no exception, and has three interrelated reform initiatives underway: (i) Civil Service Reform, focused on improved human resource management and performance; (ii) Public Enterprise Reform, centered on improving governance and performance of public entities; and (iii) Financial Management Reform (FMR).

The FMR program seeks to put in place better financial management practices that adopt a performance focus and strengthened accountability. The Financial Management Act 2004 and Finance Instructions, provide the legislative and administrative framework for this reform. The FMA clearly sets out *principles of responsible financial management,* twelve specific financial management responsibilities of CEOs, and the increased responsibilities of agency Accounting Heads, including for the operation of *internal controls*. Line managers and operational staff also have important roles to play in this regard.

The success of the FMR is dependant upon effective implementation within all government ministries and departments. As part of the Ministry of Finance's commitment to promoting understanding and ownership of the FMR, this Guide has been developed to supplement specific training initiatives. It is designed to assist CEOs, Accounting Heads and line managers better understand their responsibilities under the Act and the key elements of implementing good financial management practice.

The Guide is not prescriptive, rather it is intended to provide a framework for managers to encourage the review, design and implementation of appropriate management control that fits the nature, assessed risks and required performance outcomes of the agency.

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ACRONYMS

4Es	Effectiveness, Efficient, Economical and Ethical
AASB	Australian Accounting Standards Board
AAR	Agency Annual Reports
ACP	Agency Corporate Plan
AG	Auditor General
AH	Accounting Heads
CA	Chief Accountant
CEO	Chief Executive Officers
FEMM	Finance and Economic Ministers Meeting
FIs	Finance Instructions
FMA	Financial Management Act 2004
GDDS	General Data Dissemination Standards
GDP	Gross Domestic Product
HoA	Head of Appropriation
IA	Internal Audit
IMF	International Monetary Fund
INTOSAI	International Organisation of Supreme Audit Institutions
MFNP	Ministry of Finance and National Planning
MTFF	Medium Term Fiscal Framework
PFTAC	Pacific Financial Technical Assistance Centre
PICs	Pacific Island Countries
PPS	Portfolio Performance Statements
PSA	Public Service Act 1999
SEG	Standard Expenditure Group
SPS	Strategic Policy Statement
TMA	Trading and Manufacturing Accounts

Focus of this Guide

This Guide is aimed at the following primary audience:

- **CEOs and senior managers** to ensure an agency establishes an effective management control framework including a sound financial management control environment;
- **Accounting Heads** and agency finance officers to provide guidance on implementing good practice accounting and financial management control; and
- **Line managers** to ensure they understand their role and are equipped to contribute positively to the financial management process; and

In addition, operational staff are also likely to benefit from reading the Guide so as to raise awareness and understanding of the FMR and good practice financial management. After all, it is only through an organisation's people that effective change can be achieved.

Benefits from using this guide

✓ ***Greater understanding of financial management responsibilities***

✓ ***Guidance on establishing and maintaining effective management control***

✓ ***Good practice financial management***

The Guide, which has been developed with the assistance of the Pacific Financial Technical Assistance Center (PFTAC),[1] is presented in three parts:

- Part 1 discusses the principles and responsibilities as defined under the FMA, including strengthened reporting and accountability requirements.
- Part 2 provides guidance on establishing and maintaining effective management control.
- Part 3 provides a brief regional perspective, focused on the Eight Principles of Accountability as endorsed at the 1997 Financial Economic Ministers Meeting.

[1] PFTAC is a multi-donor financed center operated by the IMF and based in Suva. It provides technical assistance and capacity building in economic and financial management to the Governments of Pacific Island Countries.

Overview of Key Issues

For CEOs and Senior Managers

- **Responsibilities.** The FMA 2004 defines five core principles of responsible financial management for which CEOs must have regard to in the management of their agency. The Act also defines twelve specific responsibilities of CEOs, which can be grouped as: the "4Es" management; planning and budgeting; management control; and accountability. The 4Es relate to the effective, efficient, economical and ethical management of agency resources. The definition and application of these principles and responsibilities are discussed in Part 1.
- **Management control.** Management is responsible for establishing the systems designed to ensure compliance with policies, plans, procedures, and applicable laws and regulations. The "control environment" depends significantly on the attention and direction provided by an agency's CEO and senior managers. Tips for establishing an effective control environment are discussed in Part 2.
- **Integration of Planning and Budgeting.** This is an essential factor contributing to achievement of outcomes. Commencing in the 2006 Budget process, the Government has adopted an integrated approach to the presentation of Budget information with the introduction of Portfolio Performance Statements (PPS). These Statements are intended to clearly link the outputs that an agency is funded to delivery to the outcomes the Government is seeking to address, as specified in the Strategic Development Plan (SDP). The Agency Corporate Plan (ACP) will describe how that agency intends to <u>produce</u> the outputs identified in the PPS and <u>achieve</u> the associated performance targets.
- **Strengthened Reporting.** The following key reporting requirements of the Financial Management Act 2004 and Finance Instructions are discussed in Part 1:
  - **Monthly Management Reports.** CEOs should be provided with a monthly Management Report for consideration by a senior management committee. This report will provide the basis for the reports required by the central agencies under the legislation. The report should cover: an analysis of the agency's service and financial performance; any Trading

and Manufacturing Account (TMA) operations; and assurance that management controls are operating effectively. On a quarterly basis, the Management Report must also include an analysis of outstanding and overdue debts, the TMA financial statements, a report on any write-offs, and a report on vehicle usage.

- **Central reporting requirements.** CEOs are responsible for ensuring the timely preparation and submission of all the necessary monthly, quarterly and annual information required by the Ministry of National Planning and Finance.
- **Agency Annual Report.** CEOs are responsible for the preparation and submission of an Agency Annual Report to the responsible Minister. From financial year 2006, the AARs will need to include financial statements of the agency, certified by both the CEO and Accounting Head that *they fairly reflect the financial operations and performance of the agency*. To do this with confidence, the CEO will need reasonable assurance that the management control system is operating effectively.
- **Quarterly report to Ministers.** CEOs are required to provide quarterly performance reports to their Minister.

- **Performance Assessment.** The Public Service Commission (PSC) in assessing the performance of CEOs will take their agency's performance against the PPS and ACP into consideration.

Accounting Heads

- **Internal controls.** Accounting Heads are responsible for the effective design and operation of internal accounting controls across the agency that ensure: (i) the safeguard money and property against loss; (ii) avoid or detect accounting errors; and (iii) avoid unfavorable audit reports.
- **Compliance**. Accounting Heads must ensure that all officers are aware of their responsibilities as specified in the Finance Instructions and agency Finance Manual, and that there is effective compliance. This includes monthly random internal checks to ensure that all the required controls are carried out and remain effective. These internal checks are in addition to any that are carried out by internal audit.

- **Monthly reporting on compliance.** Accounting Heads must prepare a monthly report for the CEO on compliance with the control requirements specified in the agency's Finance Manual. In particular: (i) whether all reconciliations are up to date; (ii) whether financial information required by the Ministry for Finance and National Planning (MFNP) has been submitted on time; (iii) whether stock takes of physical assets, inventory and money have been carried out as and when required; (iv) the status of unresolved audit issues (both internal and external audit reported issues); and (v) improvements in internal control, such as rotation of duties between staff, that. have been implemented or are proposed.

Management Controls

- **Objectives.** As discussed in Part 2, the four general objectives of management control are: (i) executing orderly, ethical, economical, efficient and effective operations; (ii) fulfilling accountability obligations; (iii) complying with applicable laws and regulations; and (iv) safeguarding resources against loss, misuse and damage.
- **Cost and Risks**. In establishing controls, consideration should be given to the extent and cost of controls relative to the importance and risk associated with a given activity.
- **Operational responsibility**. Individual line managers and operational staff are accountable for the operation of the controls within their own areas of responsibility. Most controls are only as good as the people that operate them. No matter how well designed and operated, management control cannot provide *absolute* assurance that objectives will be achieved. It can only provide *reasonable* assurance.
- **Internal Audit**. This is an important management tool. Internal Audit function is responsible for providing an independent assessment of whether the control systems are adequate and effective, whether the activities audited are complying with the appropriate requirements, and to formally report to management on the findings and recommendations. Management is responsible for ensuring appropriate and timely action is taken to rectify identified weaknesses.

Introduction

FMR and the Management Cycle at a Glance

In 2003, the Government approved a broad strategy for FMR that has four primary components:

Four components of FMR:

1. the *Financial Management Act 2004* (FMA) and *Finance Instructions* (FIs), the contents and application of which are discussed in Part 1;

- ***Legislation***

2. Performance Budgeting in all government ministries and agencies, focused on strengthening linkages between planning, budget, service delivery and accountability. It involves the allocation of resources to agencies based on the specification of the goods and services (outputs) that they will deliver, the intended outcomes to be achieved, and the systematic monitoring and reporting of progress against agreed performance indicators and measures;

- ***Performance Budgeting***

3. an upgraded Financial Management Information System (FMIS) that will significantly improve the capacity for timely, complete and comprehensive reporting as well as automate and streamline accounting processes. From early 2005, the system will be progressively rolled out to all agencies; and

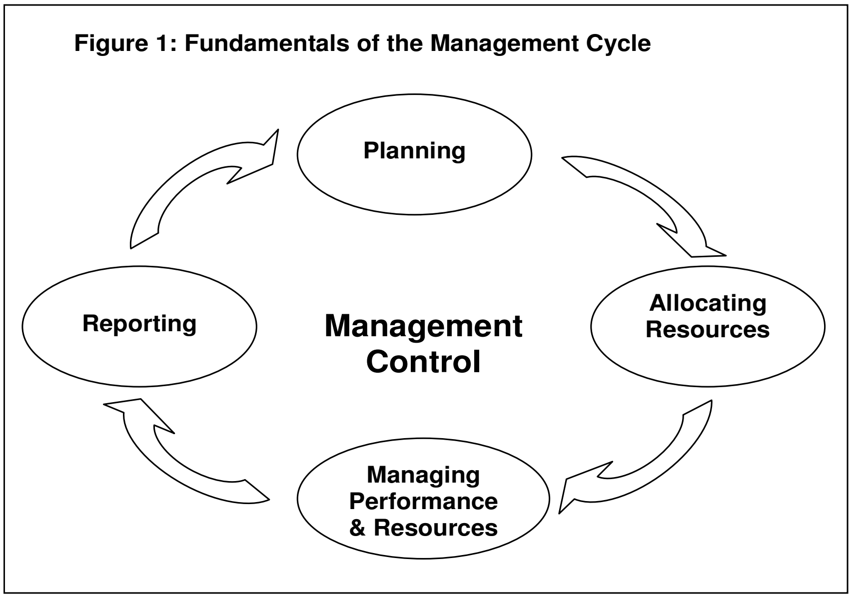
- ***Upgraded finance system***

4. training and capacity building at all levels of government, of which this Guide is a supporting component. This is seen as the most important aspect of the reform as it is only through people that improved performance in public service delivery can be achieved and sustained.

- ***Staff development***

Emphasis is on the adoption of a performance focus and strengthened accountability….
…. across all stages of the management cycle

The key objective of the FMR is to strengthen and modernise the management of Government finances through (i) adopting a performance focus and (ii) strengthened accountability. To be successful, this needs to be effectively integrated across the four fundamental components of the management cycle, depicted in Figure 1.



These components are applicable at all levels of organisation: from the whole-of-government level down to the agency and individual work unit levels. Elaboration of this in relation to the FMA is the focus of Part 1. Similarly, the implementation and maintenance of an effective system of management control, that underpin the various activities in the management cycle, is fundamental. This is discussed in Part 2.

Greater Devolution

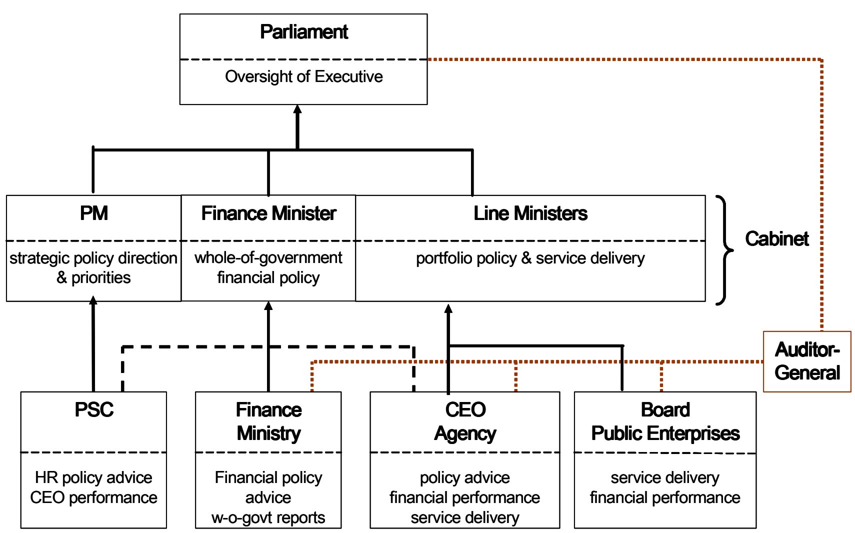
A key aspect of the government's FMR program is the progressive devolution of greater operational authority to managers, balanced by greater accountability for the exercise of that power. Devolution is the placement of power or authority to make decisions on strategies, priorities and resource allocation at the level of the organisation that leads to the most cost effective decisions. The aim is to give individual managers greater scope to achieve the policy outcomes sought by each agency and the government overall, while retaining an appropriate level of cohesion, consistency and focus at the whole-of-government level. Devolution holds out the prospects of improvement in the allocation and efficient use of public resources, together with more responsive and enhanced service delivery.

A key challenge of effective devolution in the public sector is finding an appropriate balance between managerial autonomy, management and ministerial accountability, and the need to maintain a certain level of centralised information and decision-making.

Enhanced Accountability

An integral part of the FMR is a renewed emphasis on accountability for public sector resources. The FMR changes are designed to enhance the existing framework of accountability not only by addressing the traditional issues of compliance, but also by placing greater emphasis on accountability for performance. Within the FMR, accountability is seen as a mechanism to drive Ministries to improved performance by having increased attention paid to performance issues by the accountability bodies, particularly Parliament. Figure 2 depicts the overall government accountability framework.

Figure 2: Government Accountability Framework



At the top of the public sector accountability framework is **Parliament,** whose authority as representatives of the people of Fiji, is to demand accountability for the performance of Government. This is achieved primarily through the Constitutional requirement that the Government must seek Parliament's approval for all legislation, including for the expenditure of public funds. Thus, the Parliament must approve the Government's annual expenditure program (budget) and receive timely and accurate reports from Government to ensure that those funds have been spent properly, efficiently and effectively.

Ministers, collectively referred to as the *Executive,* are directly accountable to Parliament. In particular, ministers are responsible for the overall policy direction and management of their respective portfolio of agencies, as well as for the carriage in the Parliament of their accountability obligations to the institution.

Cabinet, headed by the Prime Minister, is the central organ for ministers' collective consideration of issues. It is responsible for determining the high level goals and strategic priorities of government, including agreeing final budget resource allocations for presentation to Parliament. In regards to the latter, the Minister for Finance is responsible for the direction of whole-of-government fiscal policy within which the budget is framed and executed.

Ministers and **CEOs** have complementary roles. As consistently stated under the Constitution, the FMA and the Public Service Act 1999 (PSA), CEOs are accountable to the responsible Minister *for the efficient, effective and economical management* of his or her agency. The application of this is considered in detail in Part 1.

Since 2004, all CEOs are appointed for fixed terms, usually five years. Whilst they are eligible for re-appointment, all appointments and re-appointments and their associated terms and conditions are entirely at the discretion of the Prime Minister, based on advice from the Public Service Commission. The new arrangements provide more flexibility for the government to appoint people it considers are best able to meet the responsibilities of CEO positions and to deliver on the Government's policy priorities.

The **Public Service Commission**, under the *Public Service Act 1999* (PSA) has specific statutory functions in relation to public service issues. Key aspects related to performance include: to promote, monitor and evaluate the public service *values* and *code of conduct* across ministries, departments and parliamentary bodies; to contribute to, and foster, leadership; and to facilitate continuous improvement in human resources management in the public sector. The Public Service Commission also oversees CEO's performance as specified in individual performance agreements as well as the wider civil service performance management framework.

The **Minister for Finance** also has specific statutory functions and responsibilities under the FMA. In particular, the Minister is responsible for managing the financial affairs of the Government as a whole, with due regard to the *principles of responsible financial management*. The nature and application of these principles is discussed in Part 1.

Similar to CEOs, the **Boards of Public Enterprises** are accountable to Parliament for the performance of the entity, through the responsible minister. Whilst the FMA sets out the specific responsibilities of Boards with regard to financial management and annual reporting, the broader governance and functional responsibilities are defined in the Public Enterprise Act 1996 and specific legislation related to the establishment of the entity.

Finally, the **Auditor-General's** (AG) role is critical in providing timely and independent assurance to Parliament on the financial performance of government. The Constitutional Offices Commission appoints the AG after consultation by it with the relevant sector standing committee of the House of Representatives. Under the Constitution, the AG is independent of direction or control by any person or authority in the performance of their duties or functions or the exercise of powers.

The FMA 2004 requires that the annual whole of government financial statements, which must be tabled by the Minister of Finance, within nine months after the end of a financial year, must be audited by the AG and be accompanied by his or her audit opinion. In addition, from 2006, all budget funded agencies will be required to include in their Annual Reports a similar AG audit opinion on their financial statements.

The audit opinion is based on the AG carrying out his or her duties as defined in the Audit Act 1970 (refer Box 1).

Box 1: Duties of the Auditor-General

The Auditor-General shall, on behalf of Parliament, and in such manner as he deems necessary, examine, inquire into and audit the accounts of all accounting officers. The Auditor-General shall satisfy himself -

(a) that the accounts have been *faithfully and properly kept*;

(b) that all *reasonable precautions* have been taken to safeguard the collection of public moneys and that the laws, directions or instructions relating thereto have been *duly observed*;

(c) that expenditure has been *properly authorised and applied* to the purposes for which funds were appropriated by Parliament and has been otherwise properly accounted for; and that the regulations and procedures applied are sufficient *to secure an effective control* over expenditure, and that it has been incurred with due regard to economy and avoidance of waste and extravagance;

(d) that adequate stores regulations and procedures have been made to *ensure the proper receipt, issue and custody of* stores and other property of whatsoever nature, and that such regulations have been duly observed; and

(e) that the provisions of the Constitution and of the Financial Management Act, and of any other law relating to moneys or stores subject to his audit have been *in all respects complied with*.

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A key focus of this Guide is therefore to assist CEOs, managers and Accounting Heads understand their new responsibilities under the FMA for ensuring that appropriate policies and procedures are in place in their agency, so as to allow a satisfactory audit opinion to be given.

PART 1: The FMA In Practice

Core Principles

Box 2 sets out the five core principles of responsible financial management, as defined in section 5 of the FMA 2004. These principles are applicable to varying degrees at both the whole-of-government level and individual agency level.

Box 2: Core Principles of Responsible Financial Management

1. to manage finances over the medium term on a responsible and transparent basis;
2. to manage revenues and expenditures in such a way as to achieve prudent levels of debt;
3. to ensure value for money in the use of money and resources;
4. to manage contingent liabilities in a prudent manner; and
5. to report transparently in accordance with relevant accounting and statistical standards.

What do these mean in practice?

1. To manage finances <u>over the medium term</u> on a *responsible* and *transparent* basis.

Medium term relates to the next financial year and at least the two following years.

The **medium term** is typically three to five years. Under the FMA 2004, it relates to the next financial year and at least the two following years. A medium term focus is important for enabling consideration of the outlook for the Fiji economy as a whole, as well as the ongoing fiscal implications - for revenues, expenditures and the financing - of government policy decisions. As discussed later, the implementation of a full *medium term fiscal framework* (MTFF) also has benefits at the program management level in terms of greater certainty over resources.

Within this context, ***responsible*** relates to ensuring financial sustainability over the medium term, particularly in regard to Government's capacity to continue funding existing programs, finance any budget deficits, and meet debt obligations, without impacting negatively on the wider economy. ***Transparent*** relates to the systematic and timely provision of relevant, reliable and understandable information on government decisions and public policy implementation. Importantly, good practice in transparency reduces uncertainty and helps inhibit corruption.

Responsible relates to ensuring financial sustainability over the medium term.

Transparent helps prevent corruption.

2. **To manage revenues and expenditures in such a way as *to achieve prudent levels of debt.***

   The importance of levels of debt lies in the burden it imposes on future budgets in terms of the public revenue required to cover the interest payments and reimbursements as and when they fall due.

3. **To *ensure value for money* in the use of money and resources.**

   Value for money relates to the appropriate balancing of quality, quantity and price considerations relating to the inputs purchased and outputs delivered. It is not just about least cost. Rather it is closely associated with the *efficient and economical* use of public monies and resources discussed below.

Value for money relates to the appropriate balancing of quality, quantity and price considerations.

It is closely associated with the efficiency and economical use of resources.

4. **To manage <u>contingent liabilities</u> in a *prudent* manner.**

   Contingent liabilities are defined as potential liabilities that may or may not become due, depending on whether a possible event occurs.[2] In Pacific Island Countries (PICs) these are primarily associated with loan guarantees, particularly for public enterprises. However, they can also arise from claims for compensation (such as litigation cases in progress), warranties, indemnities or other legal claims.

   Prudent management relates to ensuring that effective polices and strategies are in place to limit the Government's exposure to such liabilities and to record and, where possible, attach an actuarial value to each liability. Section 7.4 of the FIs requires

[2] Contingent liabilities are defined by the accounting standard AASB 1044, which came into effect on 1 July 2002

that agencies maintain a register of contingent liabilities detailing, among other things, any action required to minimise loss and progress in managing the associated risks. Good practice would also require that significant contingent liabilities be reported in the Government Budget papers, as well as in the relevant Annual Reports of agencies.

5. To report *transparently* in accordance with relevant accounting and statistical standards.

It is an essential element of financial transparency that data reported by government meet basic criteria that attest to the quality and the timely publication of information. This includes the adherence to generally acceptable accounting principals and the operation of appropriate accounting system internal controls. The Fiji Government is also committed to the internationally recognised General Data Dissemination Standards (GDDS), a framework for improving the quality of statistical reporting. [3]

Responsibilities of CEO and Senior Managers

CEOs are responsible for managing the financial affairs of the agencies for which they have responsibility. In this regard, they must be mindful of the above core principles. Box 3 sets out the responsibilities of CEOs as defined under section 28 of the FMA. These responsibilities are inter-dependent and can be grouped into four broad categories: (i) management based on the "4Es"; (ii) planning and budgeting; (iii) internal/management control; and (iv) accountability. In effect, these closely align with the four components of a good practice management cycle as per Figure 1, discussed in the Introduction.

The 12 defined responsibilities of CEOs can be grouped as:

- ***"4Es" management***
- ***Planning & Budgeting***
- ***Management Control***
- ***Accountability***

The actual application of each of these is discussed below, based on the FIs that specify the minimum standards required for the financial management of agencies. Firstly however, it is important to highlight that good practice suggests that a strong senior executive management group is essential to good policy decision-making and implementation. To assist in discharging their responsibilities, effective CEOs establish a

The establishment of a senior Executive Committee to assist a CEO in meeting these responsibilities is good practice.

[3] GDDS are standards promulgated by the International Monetary Fund (IMF) to guide member countries in the dissemination to the public of their economic and financial data.

senior management executive committee/board as the primary decision-making body of the agency. It should have responsibility for high-level policy issues relating to strategic leadership and management, including ensuring the performance and conformance of operations. The senior executive should have at least monthly meetings, chaired by the CEO, for focused discussions on relevant issues.

Box 3: Responsibilities of CEOs

1. the effective, efficient and economical management of the agency;
2. ensuring the proper administration by the agency of an appropriation administered by it;
3. ensuring that money and property of or under control of the agency are properly accounted for;
4. the setting of fees or charges for agency revenue, subject to the Finance Instructions and any other written law;
5. the collection of agency revenue and state revenue so far as the revenue relates to the functions of the agency or the agency is otherwise responsible for its collection;
6. the authorisation of expenditure in relation to the agency;
7. the maintenance of an effective system of internal control for money and property;
8. the preparation and provision of annual corporate plans for the agency;
9. the preparation of annual reports and financial statements for the agency;
10. the issue of a finance manual for the agency;
11. compliance by the agency with applicable requirements of the Act and the Finance Instructions; and
12. any other responsibilities assigned by or under other provisions of the Act or other written laws.

(i) 4Es Management

A core challenge of the public service is to be responsive to the needs of the public and deliver the services they require efficiently, effectively and ethically. The overarching responsibility of all CEOs as defined in both the FMA and PSA, is the <u>e</u>fficient, <u>e</u>ffective and <u>e</u>conomical management of their agencies. In addition, the <u>e</u>thical standards that all public servants must uphold, are embodied in the *values* and *code of conduct*, as set out in the PSA. In the remainder of this document this overarching responsibility will be referred to as the "4Es":

- **Effectiveness** is how well the planned program outcome(s) of an agency are actually achieved, or can be expected to be achieved. Under the new performance budgeting framework, outcomes are defined *as the impacts, results or effects on the community from the goods and services (outputs) delivered by agencies*. As such there is a strong relationship between the degree to which the outputs delivered by an agency contribute to its actual achievement of the planned outcome(s).

- **Efficiency** relates to the cost of producing the outputs: the lower the cost of inputs used to produce a specified output, the more *cost efficient* it is. Conversely, it can be expressed as maximising outputs for a given level of inputs. In addition, Government and program managers have to choose between alternative allocations (uses) of scarce resources (land, labour and capital). *Allocative efficiency* relates to the extent to which the overall mix of goods and services maximises social benefits. It may be possible to deliver even greater benefit by changing the mix of activities/outputs.

  The specification of well defined and measurable output and outcome performance indicators, and the systematic evaluation and monitoring of progress against these, are key tools in assessing effectiveness and efficiency.

- **Economical** is closely related to efficiency. In the context of the FMA, the economical management of an agency is about minimising waste through, for example, identifying and reducing/eliminating non-productive work, under utilised facilities and over staffing.

- **Ethical** behavior is a fundamental element of responsible management. *Ethics* are the moral boundaries or values within which officials work. Ethical behavior encompasses the concepts of honesty, integrity, probity, diligence, fairness, trust, respect and consistency. Ethical behavior identifies and avoids conflicts of interests, does not make improper use of an individual's position, and impedes corruption.

(ii) Planning & Budgeting

Planning at any organisational level is about defining what outcomes are to be achieved and developing strategies for getting there, including what goods and services (outputs) will be produced. International experience demonstrates that the integration of planning and budgeting, within a MTFF, is essential for the strategic allocation of resources in line with government priorities. It ensues that expenditure programs are driven by policy priorities which are disciplined by budget realities across the medium term.

The integration of planning and budgeting is an essential factor contributing to achievement of outcomes.

At the whole-of-government level, the three year **Strategic Development Plan (SDP)**, sets out the Government's vision and mission and outlines sectoral priorities, policies and planned outcomes which are intended to guide corporate planning and budget allocation decisions over the medium term.[4] However, in the past, the linkages between the planning, budget and performance monitoring processes has been weak.

The SDP guides corporate planning and budget allocation decisions over the medium term.

Commencing in the 2006 Budget, an important vehicle for facilitating change and improving performance monitoring is the introduction of **Portfolio Performance Statements (PPS)**.[5] These Statements will be required to define the output group(s) that each agency is funded (Budget Estimates) to deliver and the associated performance indicators against which the agency's actual performance can be assessed. The need to be clear linkages between the output group(s) specified in an agency's PPS and the related outcomes specified in the SDP.

PPS will be required to clearly link the outputs, which an agency is funded to produce, to the related Government outcomes specified in the SDP

Similarly, the content and use of **Agency Corporate Plans (ACPs)** will be strengthened. ACPs will be required to describe how the agency intends to operate (ie its strategies) to <u>produce the outputs</u> identified in the PPS, for which it has been funded, and to describe

The ACP will need to clearly link the PPS outputs with the agency's organizational structure and Budget Estimates

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[4] The SDP is the culmination of consultations undertaken approximately every three years with a wide range of people in the private sector, non-government organisations and Government.

[5] In the 2005 Budget, performance budgeting information was piloted in the Budget documentation for four ministries. In 2006 a separate *Budget Paper 4: Portfolio Performance Statement* will include performance budgeting information and extend coverage to all Budget dependent line agencies.

how it will meet the PPS performance targets. That is, the ACP will need to clearly link the PPS outputs with its organizational structure and associated Budget Estimates. [6]

In line with the Civil Service Reforms, the PSC in assessing the performance of CEOs will take into account actual performance against the PPS, ACP and Budget Estimates. It is therefore important that CEOs put in place appropriate mechanisms for ensuring internal consistency in these documents and regular monitoring of the agency's performance. Two key requirements of the FIs in support of this are (i) each agency must establish a **Budget Focus Group,** comprising senior management officials, responsible for the agency's strategic planning and budgeting (section 2.1); and (ii) the preparation of monthly Management Reports (discussed below).

In assessing CEOs performance, consideration will be given to the delivery of their agency's outputs, as specified in the PPS and ACP, within the annual Budget Estimates.

(iii) Internal/Management Control

The establishment and maintenance of effective internal control significantly assists in meeting CEOs' responsibilities in regards to 4Es management of resources. Increasingly, the organisational wide system of internal controls are referred to as management controls, emphasising the fact that it is an important responsibility of all managers. This Guide adopts the same terminology. The majority of the remaining twelve specific responsibilities of CEOs fall under the umbrella of management control.

Increasingly, internal controls are referred to as management controls, emphasising the fact that it is an important responsibility of all managers.

- The ***proper administration*** of an appropriation. This is closely associated with the 4Es of resource management. In addition, ***appropriations*** represent an authorisation by Parliament for Government agencies to spend up to the amount specified under the relevant "Head of Appropriation" (HoA). Over expenditure is a serious breach of the law. As such, effective expenditure authorisations and the systematic recording and monitoring of expenditure commitments and actual payments, are essential elements of management control.

The majority of a CEO's responsibilities fall under the umbrella of management control.

[6] The PSC and the MFNP will issue annual guidance on the requirements for development of PPS and ACPs respectively.

- The ***proper accounting*** for money and property. This relates to enforcing the procedures and process as specified in the FIs and agency Finance Manual. Property encompasses: office equipment and furniture; computing hardware and networks; vehicles, vessels and aircraft; scientific and industrial equipment; land; and buildings.

- The ***setting of fees*** *or charges* for agency revenue. This should be done in a way that is fair to customers or clients and recover at least the partial costs of providing the goods or services. Authority for any revenue retention arrangements must be approved by Cabinet.

- The actual ***collection of agency and state revenue.*** This should be undertaken in such a way as to ensure all collections are legitimate, timely, officially documented and promptly banked. The authority for an agency to collect revenues, and the type of revenues to be collected, must be clearly established by law. Officials with responsibility for actually receiving the monies must be formally authorised to do so by the CEO. Copies of such appointments must be sent to the MFNP.

- The ***authorisation of expenditures***. This relates to having in place a system of delegations and procedures appropriate to the type and level of expenditure occurring and in accordance with the FIs.

- The maintenance of an effective system of ***internal control for money and property***. This is primarily focused on accounting related controls - procedures governing the appropriate use of and accounting for public assets (including cash). Accounting controls are an important component of the wider system of management controls.

- ***Compliance*** with the Act and FIs and any other applicable laws. This is about having independent mechanisms to periodically assess that the management control system is in place and operating effectively. This includes senior level commitment to ensuring any weaknesses or breaches in the system are appropriately actioned.

The essential elements of an effective management control system are discussed in Part 2.

(iv) Accountability

In Government, accountability operates at two distinct levels: *internally*, primarily to a higher level of management or central authority; and *externally* to the legislature and general public. Regular and timely reporting on performance serves as both an essential management control and as an effective accountability mechanism.

Regular and timely reporting on performance is both an essential management control and an accountability mechanism.

Internal accountability

Under the FIs a primary internal accountability requirement of a CEO to their relevant Minister, is quarterly performance reporting. A report must be provided to the Minister, within two weeks of the end of each quarter, on the financial operations of the agency, as compared to budget, together with progress on the implementation of the outputs specified in the CP.

CEOs are required to provide their Minister quarterly performance reports.

Similarly, the FIs require regular monthly reporting at the agency level. In particular, within two weeks after the end of each month, the CEO must be provided with a **Management Report** focusing on significant issues related to:

CEOs must be provided with a monthly Management report, for consideration by a monthly senior management committee meeting.

(i) **the agency's service delivery**, comparing actual levels of service against targets in the business plan or part of the CP. Recognising the difficulty with monthly measurement of performance targets/indicators in business and corporate plans, the report should at least highlight significant operational issues that may impact on the achievement of the program’s annual targets which senior management should be aware of;

(ii) **the financial performance**, providing an analysis of the financial and budget position of the agency. The report should include, information on actual revenue collected against forecast, actual expenditure to date against budget for each activity/output and each Standard Expenditure Group (SEG); and actual expenditure to date and commitments against budget for each output/activity and each SEG.

(iii) **operation of any Trading and Manufacturing Accounts** (TMA), reporting on performance of any TMAs that operate in their agency. The report should include an analysis of TMA performance against targets set in their Business Plans and confirmation that a monthly reconciliation of the TMA to the General Ledger has been performed;[7]

(iv) **management controls**, providing the CEO with assurance that internal controls are operating effectively. This includes assurance that all the financial information required by the MFNP has been submitted on time; and

(v) **any other significant issues** for the CEO's information or decision.

The Report should be discussed at monthly executive management meetings chaired by the CEO. It should be presented so as to enable senior management to easily assess key issues in relation to the financial and program performance of the agency - for example, by providing a one page executive summary highlighting key issues/decisions for the Executive to consider.

The report should be prepared so as to enable an easy assessment of the key financial and program performance issues.

On a quarterly basis, the FIs require that the Management Report include: an analysis of outstanding and overdue debts; the TMA financial statements; a report on any write-offs; and a report on vehicle usage. Further detail on the monthly and quarterly reporting requirements is provided in the Annex to Part 1.

Additional performance information must be included in the Management Report on a quarterly basis.

External accountability

The strengthened annual and within-year reporting requirements specified in the FMA are key elements of the Government discharging its external accountability to Parliament and the general public.

The Fiji Government's financial year extends from 1st January to 31st December. Budget formulation commences in about April each year with the first meetings of the Cabinet Subcommittee-Budget to consider the following year's Budget strategy and economic and financial framework. The Budget formulation processes continue until the Budget is

CEOs are responsible for the timely preparation and submission of all the necessary information required by the MFNP.

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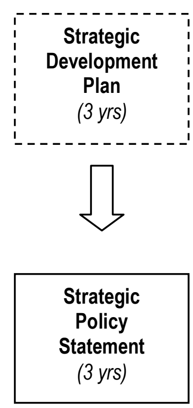
7 In November 2005, all TMAs will be required to submit to the MOF Asset Management Unit, annual Business Plans for the following year. The AMU is in the process of developing guidance and training for TMAs on the new reporting requirements. It is an existing requirement that agencies undertake monthly reconciliations of each TMA with the balance shown on the General Ledger report issued by Main Accounts.

submitted to Parliament by the end of November, for December approval prior to the start of the financial year.

Table 1 summarises the reports required under the Act to be submitted to the Parliament across the financial year by the specified dates. The CEO of the MFNP is responsible to the Minister of Finance for the preparation for the first five of these reports. The actual contents of these reports are discussed below. However, it is important to also note that agency CEOs are responsible for the timely preparation and submission of all the necessary information required in accordance with the instructions issued by the Minister or CEO of the MFNP.

Table 1: Annual and Within-Year Reporting

Report	Date
(i) Strategic Policy Statement	By 30 June of the preceding financial year
(ii) Annual Budget.	By 30 November of the preceding financial year
(iii) Quarterly Appropriation Statement	Within 2 months of the end of each quarter
(iv) Mid-Year Fiscal Statement	By 31 July each year
(v) Whole of Government Annual Report	Within 9 months of the end of each financial year
(vi) Agency Annual Reports	By 30 May of following financial year



(i) Strategic Policy Statement (SPS) sets out the Government's broad medium-term objectives and fiscal targets. This is an important new policy statement introduced under the FMA 2004 and forms the basis on which the coming annual budget will be prepared.

The medium term covers three years: the coming financial year; and two following financial years. The actual /projected results for the previous two financial years are also included for purposes of comparison and trend analysis. The fiscal targets relate to the:

- intended budget result (deficit/surplus);
- level of government debt;
- level of government debt servicing; and
- level of contingent liabilities.

Consistent with international practice, all four targets are expressed as a percentage of gross domestic product (GDP) as it provides an indicator of the sustainability of the government's fiscal intentions in relation to the size of the economy as a whole. The higher the percentage the greater the size/impact the public sector has on the economy.

(ii) Annual Budget documents presented to Parliament for consideration and approval, encompassing:

- **Budget Statement(s)** provide detail on the context and assumptions used in developing the Budget. The focus is at the aggregate level (i.e. whole of government), and includes: an assessment of the Fiji economy's medium-term outlook (budget year estimates and 2 forward year forecasts); the outcomes the Government is seeking to achieve in the budget; a summary of new policies; the Government's estimated revenue, expenditure and associated budget surplus/deficit; and how any budget deficit will be financed.

Annual Budget documents
Budget Statement: 3 yr economic outlook & aggregated financial figures
Portfolio Performance Statement: 1 yr
Budget Estimates: 1 yr

- **Portfolio Perfromance Statements,** as discussed earlier; and

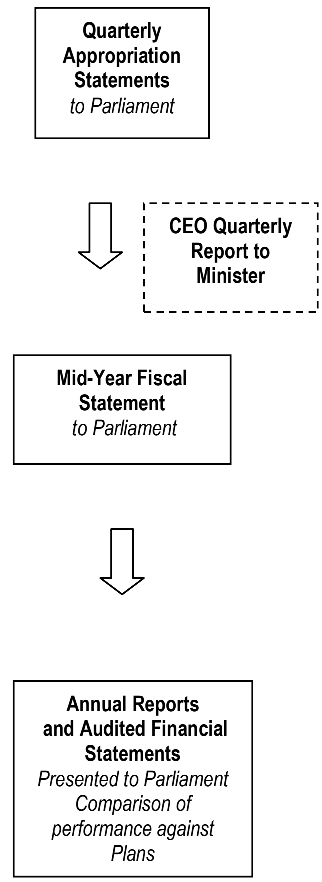
- **Budget Estimates** specifying the appropriation categories for each *Head of Appropriation*.[8] Within each HoA, for budget control purposes, budgets are actually allocated to three cascading lower levels of expenditure: (i) Program; (ii) activity/output; and (iii) 13 SEGs. The document also includes a description of the program outputs and measures;

Agency Corporate Plan
Linking the PPS outputs with the agency's organizational structure and Budget Estimates

- the **Appropriation Bill**. This is the legal document which, when passed by Parliament, gives the Government authority to receive and spend public monies for the financial year. All appropriations lapse (cease) at the end of the financial year. However, the Minister of Finance has the power under the FMA to authorise the carry-over of appropriations for known liabilities as at a particular date;

[8] In the 2005 Budget there are 52 HoA: 3 specific Offices; 38 Ministries; 2 discrete Departments; and 3 whole of government related expenditure categories (Miscellaneous, Public Debt and Pensions).

(iii) Quarterly Appropriation Statement. This statement reports on actual year-to-date expenditure and projected full year expenditure, compared to the budget - for each HoA and for the government as a whole.



(iv) Mid-Year Fiscal Statement, reports on budget execution (revenue received and actual expenditures) for the first six months of the financial year. The contents of the statement are similar to the quarterly reports and in effect, replace the second quarterly report. The statement also reports on the actual (6 months) and projected (12 months) surplus/deficit as compared to the budget and the previous financial year.

It is important to stress that the mid-year budget review process should not be seen as an opportunity to revisit/review all budget allocations. It is more a "fine tuning" of the budget to accommodate any revisions in revenue forecasts and any urgent and unavoidable new/additional expenditure priorities.

(v) Whole of Government Annual Report, prepared by the MFNP, providing:

- financial statement(s) for the government as a whole and audited by the Auditor-General; and
- an annual budget statement reporting total revenue, expenditure and the actual budget surplus/deficit across five financial years (the two previous years, the financial year, and next two financial years).

(vi) Agency Annual Reports (ARs) are a key element of the performance assessment and accountability of CEOs and agency managers. Each CEO is responsible to his or her respective Minister for the preparation of the AAR. The responsible Minister must table the report in the House of Representatives. The contents of the report are set out in Part 12 of the FIs and includes reporting on service delivery performance compared to targets (specified in the CP).

CEOs and Accounting Heads will be required to certify the annual financial statements for their agency……..

they will need reasonable assurance that the management control system is operating effectively.

In addition, commencing from the 2006 financial year, AARs are required to include audited financial statements for the agency. The statements must be certified by the CEO and Accounting Head that they *fairly reflect the financial operations and performance of the agency*. In order for the CEO and Accounting Head to be in a position to sign such a certification, they will need to have reasonable confidence/assurance that the management control system is operating effectively.

CEO's Greater Operational Authority

As noted in the Introduction, the greater accountability of CEOs for performance under the FMR necessitates the devolution of greater operational authority from the central agencies to CEOs to enable them to manage more effectively the resources for which they are held responsible. In particular, as set out in the FIs:

- CEOs have authority to approve the transfer of funds, within and/or between the agency's HoA, within the following limits: from SEGs 1 and 2 (Established and Unestablished staff); between SEGs 3 and 7 (Travel and Communications, Maintenance and Operations, Purchase of Goods and Services, Operating Grants and Transfers and Special Expenditures); and from operating expenditure (SEGs 1 to 7) to capital expenditure (SEGs 8 to 10). The intention over time is to reduce the number of SEGs so as to provide CEOs and managers even greater flexibility in the allocation of funds;

- CEOs have increased expenditure management flexibility, including the authority to: approve expenditure up to $20,000; to set further delegation limits within their agency; to establish Agency Tender Boards for consideration of purchases between $20,000 to $50,000[9]; and to write-off of certain losses (based on the limits specified in section 8. 1 of the FIs); and

In addition, CEOs have greater incentives for revenue generation through revenue retention arrangements, including from commercial activities and sale of surplus agency assets.

CEOs have greater operational authority for:

- ***adjusting the mix of resources to changing circumstances;***
- ***increased expenditure management flexibility, and***
- ***greater revenue generation incentives.***

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[9] Procurement action over $50,000 must be undertaken through the Central Tender Board.

Chief Accountant Responsibilities

Since 1999 the actual role and functions of the Chief Accountant (CA) and Treasury have evolved in line with the gradual devolution of functions and responsibility to CEOs. In particular, the role of the CA has moved from one of exercising central control and oversight of accounting operations across all ministries, including the appointment of the accounting cadre in agencies, to one of oversight of accounting operations at a whole-of-government level.

The CA's primary financial responsibilities as the Head of Treasury, are:

The primary financial responsibilities of the Chief Accountant relate to oversight of :

- ***the finance system General Ledger;***
- ***all Government Bank Accounts;***
- ***Government payroll, pensions, gratuities, loans and advances; and***
- ***preparation of monthly, half-yearly and end- of-year whole of government financial reports and statements.***

i. oversight of the General Ledger on the Government's central financial and management information system. This includes monitoring and review of agencies' monthly reconciliations of revenue, expenditure and commitments ledgers, and associated journal transactions (as required under the FIs);

ii. oversight of Government Bank Accounts. The CA is responsible for approving and oversight of all bank account operations. In particular: oversight/maintenance of the Consolidated Fund Account [10] with the Reserve Bank of Fiji; administration of the Cash Book for Central Government; approval of the opening of any official bank accounts, signatories to cheque accounts and acceptance of cheques drawn on bank accounts outside Fiji; and receipt/review of agencies of monthly bank account reconciliations;

iii. oversight of the Government payroll, pensions and gratuities, and the approval of all loans and advances payments;

iv. preparation of monthly and half-yearly whole-of-government financial monitoring reports (actual revenues and expenditures compared to budget) for consideration by the CEO MFNP, Minister of Finance and reports for Cabinet; and

[10] The Consolidated Fund Account is the Government's primary account into which the receipt of all public monies should be paid and from which all expenditures made.

v. coordination of end-of-financial-year accounting procedures and preparation of the end of year whole-of-government Financial Statements. As previously discussed, this includes certification of the Statements by the CA and CEO MFNP that they *fairly reflect the financial operations and performance of the government as a whole.*

Accounting Head Responsibilities

Finally in this section we briefly consider the increased responsibilities of agency Accounting Heads. Under Part 10 of the FIs, the agency Accounting Head is responsible to the CEO for the effective design and operation of "internal" controls across the agency. In particular, the stated objective of internal control is that it aims to:

Accounting Heads are responsible for the effective design and operation of "internal" controls across the agency.

- Safeguard money and property against loss;
- Avoid or detect accounting errors; and
- Avoid unfavorable audit reports.

Accordingly, Accounting Heads are responsible for ensuring that their agency maintains sound processes and accounts to record its financial transactions accurately, completely and in a timely manner. This involves processing, collecting, analyzing and recording transactions and preparing financial reports for management and other interested parties. As discussed in Part 2, processing controls typically include verifying authorization, ensuring continuity of transaction processing, reviewing edit or exception reports, and reconciling output reports to original documents to ensure the completeness and accuracy of processing. The FIs require that the associated processes and controls must be documented in an agency Finance Manual.[11]

Accounting Heads are responsible for ensuring that their agency maintains sound processes and accounts for recording financial transactions accurately, completely and in a timely manner.

The Accounting Head must ensure that:

(i) all relevant officers are aware of their responsibilities under the agency Finance Manual, including the need for managers to regularly rotate duties between staff, where practical, to minimize and detect the possibility of fraud; and

Accounting Heads must ensure that all officers are aware of their responsibilities and that there is effective compliance.

[11] To assist agencies in this regard, in early 2005 the MFNP issued a suggested Proforma Finance Manual that agencies were able to tailor to suit their own operating environment. The majority of agencies adopted the requirements of the Proforma Manual. However, Accounting Heads have the authority to design internal accounting control system to suite their operational environment and having regard to the level of risk.

(ii) there is effective compliance with the requirements.

Box 4 sets out the specific requirements set out in Part 10 of the FIs in regard to Accounting Head's mandatory compliance checks and reporting requirements. In particular, the Accounting Head is required to prepare a monthly report for the CEO on compliance with the control requirements specified in the agency's Finance Manual.

Accounting Heads must prepare a monthly report for the CEO on compliance with the control requirements specified in the agency's Finance Manual.

To help fulfill this requirement:

- the Accounting Head should appoint two *compliance officers* to conduct monthly reviews of the existing controls associated with the accounting functions and prepare a report for the Accounting Head's consideration.

Box 4: Mandatory compliance checks and reporting

The Accounting Head must ensure that random internal checks are performed to ensure that all the required controls are carried out and remain effective.

These internal checks are in addition to any that are carried out by internal audit.

Each month, the Accounting Head must provide a signed and dated report to the CEO to advise:

(a) whether all reconciliations and checks required in the agency's Finance Manual have been carried out; and

(b) the current status of any unresolved external or internal audit issues.

- within 1 week of the end of each month, the Accounting Head shall submit to the Deputy CEO an internal control report providing the following information:

  (i) whether all reconciliations are up to date;

  (ii) whether financial information required by the MFNP has been submitted on time;

  (iii) whether stocktakes of physical assets, inventory and money have been carried out as and when required;

  (iv) the status of unresolved audit issues (both internal and external audit reported issues); and

(v) improvements in internal control, such as rotation of duties between staff, that. have been implemented or are proposed.

In relation to the first three items, a summary of the various reconciliations and MFNP reporting requirements, is provided in the Annex to Part 1. The reporting on item (iv) is important to enabling senior management to monitor that appropriate and timely action is taken to address identified weaknesses in management control. Finally, in relation to (v), good practice in implementing and maintaining management control systems, including compliance checking and reporting, is the subject of Part 2.

It is important to note that the focus of the responsibilities of Accounting Heads is primarily on accounting related controls. The Accounting Head has overall responsibility for ensuring these controls operate effectively across the agency. However, individual line managers and operational staff should be accountable for the operation of the controls within their own areas of responsibility. As discussed in Part 2, accounting controls are only one component of the wider management control system for which all managers have related responsibilities.

Individual line managers and operational staff are accountable for the operation of the controls within their own areas of responsibility.

Surcharging Action

The timely recovery of the loss of money or property due to an officer not adequately performing their duties is an important public accountability issue. Accordingly, Part 11 of the FIs makes provision for the "surcharging" of officers and other employees who are directly or indirectly responsible for:

i expenditure which has not been properly authorised in accordance with the FMA 2004 or FIs;

ii the destruction, damage, theft or other loss of property; or

iii the loss of money, including public money, other money and trust money.

An officer who is surcharged may also be subject to disciplinary action under the Public Service Act. The Deputy Secretary or other delegate of the MFNP has the authority to surcharge officers and other employees, other than the CEO of an agency. If the latter is to be surcharged, action should be taken in accordance with section 67 of the FMA. Commencing in 2004, a number of CEOs were surcharged for over expenditures.

Table 2 sets out the factors that will be considered when calculating the surcharge amount. The Director of Internal Audit is required to submit a monthly Surcharges Report to the CEO of the MFNP.

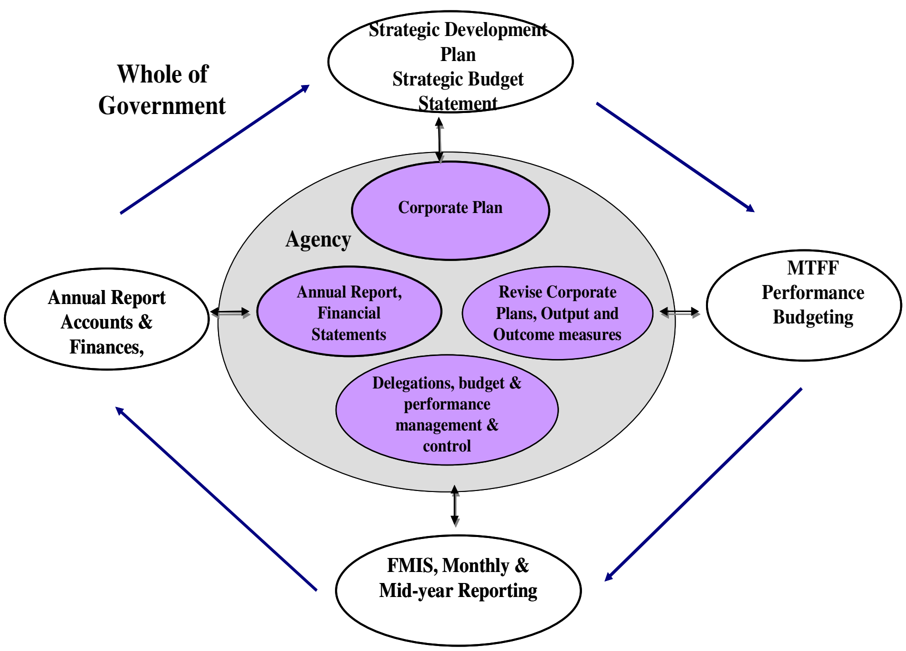
Table 2: Calculation of Surcharge Amounts

LOSS	ACTION	SURCHARGE
Damage to or loss of government vehicles	Disregard for procedures in the Finance Instructions.	100% recovery of the full cost of repairs or replacement.
Loss of cash, inventories or property, plant and equipment	Disregard for procedures in the Finance Instructions.	100% recovery up to the amount of the loss. The loss may be apportioned amongst all officers responsible.
	Lack of adequate internal control or supervision.	50% recovery of total loss or lower value approved by the CEO-Finance or delegate.
Overpayment of Salaries & Wages	Disregard for procedures in the Finance Instructions.	100% recovery of the total amount overpaid.
	Lack of adequate internal control or supervision.	50% recovery of total amount overpaid.
Unauthorized expenditure	Disregard for procedures in the Finance Instructions.	100% recovery of the unauthorised expenditure
	Lack of adequate internal control or supervision.	50% recovery of total unauthorised expenditure or lower amount approved by the CEO-Finance or delegate.

The Management Cycle: A Final Glance

Finally, Figure 3 provides an overview of the key elements in the management cycle related to the performance focus and accountability issues covered in Part 1.

Figure 3: Performance Focus & Accountability



Annex 1: Summary of Agency Monthly and Quarterly Reporting Requirements

Monthly Report	Prepared by	Provided to
Monthly Management Report focused on (i) service delivery; (ii) financial performance; (iii) TMA performance; (iv) management control (v) other significant issues. The report should be prepared based on the more detailed reports below.	AH	CEO/Dep
(i) Service Delivery Performance: comparing actual levels of service against targets in the business plan or part of corporate plan.	Director(s)	CEO/Dep
(ii) Financial Performance: providing an analysis of the financial and budget position of the agency, including: actual revenue collected against forecast; and actual expenditure to date against budget for each activity/output and each SEG.	AH	CEO/Dep
(a) Revenue Statement: compares the types of revenue collected during the month against the forecasted revenue. Within 5 working days of the MoF issuing monthly General Ledger reports, the AH should reconcile the revenue figures in report to this statement.	AH	CEO/Dep
(b) Expenditure & Commitment Reports: outlines the following information: (i) total expenditure for the month per expenditure account; (ii) total expenditure to date against the budgetary provision; (iii) amount of committed funds per allocation; (iv) available funds to date. Within 5 working days of the MoF issuing monthly GL reports, the AH should reconcile the revenue figures in report to this Statement.	AH	CEO/Dep Copy fwd to MoF within 2 weeks EoM
(iii) TMA Report: Analysis of TMA performance against targets set in their Business Plans and confirmation that a monthly reconciliation of the TMA to the GL has been performed	TMA Manager	AH CEO/Dep
(iv) Internal Control: provides the CEO with assurance that financial controls within agencies are effective. Report to provide information on: (i) whether all reconciliations are up to date; (ii) whether financial information required by MoF has been submitted on time; (iii) whether stocktakes of physical assets, inventory and money have been carried out as and when required; (iv) the status of unresolved audit issues; (v) improvements in internal control, such as rotation of duties between staff, that have been implemented or are proposed.	AH	CEO/Dep
For inclusion on a On a Quarterly basis:		
Outstanding & Overdue Debts: must outline: (i) the amount outstanding but not yet due; (ii) the total for each overdue age category; (iii) name of each debtor within each age category; (iv) the recovery actions taken for each overdue debt.	AH	CEO/Dep
TMA Performance Report: provides TMA financial statements comprising of a trading and manufacturing account and profit & loss statement; a comparison of performance to date with the business plan targets.	TMA Manager to AH	CEO/Dep
Write-off Reports: outlines the type and amount of losses that were written off during the quarter. To be forwarded 1 week after the end of each quarter to the Ministry of Finance.	AH	CEO/Dep Fwd to MoF within 1 wk EoQ
Vehicle Report: to provide the following information: (i) vehicle registration and model; (ii) location of vehicle; age of vehicle; (iii) mileage at beginning and end of quarter; (iv) road worthiness certificate number and date; (v) accident dates and cost of repairs; (vi) fuel and general maintenance costs; and (vii) any recommendations to improve cost-effectiveness.	Supervisor of Transport	CEO/Dep Fwd to MoF within 2wks EoQ

Annex 2: Summary of Agency Annual Reporting Requirements

Report	Due Date	Prepared by	Provided to
Annual Corporate Plans: as specified in FI 2.1, all agencies must prepare an Annual Corporate Plan for each financial year and submit it to the MoFNP as part of the annual budget process.	To be prepared in accordance with annual instructions issued by the PSC	Program Managers	Budget Focus Group
Agency Financial Statements: required from the 2006 Budget on. Prepared and signed by the CEO and AH in accordance with the FIs, audited by the Auditor-General, and accompanied by the audit opinion provided by the Auditor-General. Financial Statements to be included in the Agency Annual Report.	Draft financial statements must be submitted to the AG by 31 March in the following year, or within such other time as agreed with the AG	AH Directors	CEO AG
Agency Annual Reports: should consist of a consolidation of the information in the monthly performance reports and report against achievement of the outcomes and outputs as defined in the agency's Corporate Plan.	For submission to agency Minister by 30 May in the following year	AH Directors	CEO Responsible Minister
TMA Annual Reports: should include: (i) a copy of the audited TMA financial statements comprising a profit & loss statement and balance sheet; (ii) actual performance compared to the business plan targets. To also be included in the Annual Report.	As per guidance issues by agency Accounting Heads	TMA Manager	CEO AH
Stocktake Report. A stocktake must be undertaken each year to verify the existence and condition of assets recorded on the asset register. (For large agencies, the Finance Manual may provide for stocktakes to be undertaken on a cyclical basis so that all assets are checked at least once every 3 years). An annual Stocktake Report must be prepared, outlining: (i) any discrepancies between actual stock and supporting records; (ii) whether any stock is obsolete or unserviceable; (iii) explanations from the stock-keepers if relevant.	As per guidance issues by agency Accounting Heads	Stocktake Officers	AH
Grant Inspection Reports: for multi-year projects, sites are to be inspected at least a year. Grant officers should check that: (i) records are being properly kept; (ii) information in the acquittal report corresponds to records kept by the recipient; (iii) the progress of the project is satisfactory.	As per guidance issues by agency Accounting Heads	Grant Officer	Admin Manager AH
Trust Receipts & Payments Statements: to include supporting notes providing details of outstanding balances or adjustments.	Within 2 weeks of the end of the year.	Trust Officer	AH

PART 2: MANAGEMENT CONTROL

International Standards

The International Organisation of Supreme Audit Institutions (INTOSAI) is a professional body of Supreme Audit Institutions (SAIs) in countries that belong to the United Nations or its specialised agencies. There are over 170 SAIs worldwide that play a major role in auditing government accounts and operations, and in promoting sound public sector financial management and accountability. There are seven Regional Working Groups, including the South Pacific Association of SAIs, of which Fiji is a member. In 2001, the Internal Controls Standards Committee of INTOSAI published updated *Guidelines for Internal Control Standards for the Public Sector.*[12] The following discussion draws heavily on this publication.

INTOSAI is a professional body of Supreme Audit Institutions (SAIs), of which Fiji is a member of its South Pacific Association.

What is Management Control?

Management control can be broadly defined as a dynamic and integrated *process* that permeates all the activities of an organisation to provide management *reasonable* assurance that the entity's objectives will be achieved. Process is used here in the broadest sense and goes beyond procedures to include elements such as corporate culture, organisational structures, systems and policies.

Management control is a dynamic and integrated process that should permeate all the activities of an organisation.

The INTOSAI standards identify four general objectives of management control:

i. executing orderly, ethical, economical, efficient and effective operations (ie.the "4Es management" discussed in Part 1);

ii. fulfilling accountability obligations;

iii. complying with applicable laws and regulations; and

iv. safeguarding resources against loss, misuse and damage.

[12] Refer http://www.intosai.org

Without strong management control, there is an increased likelihood of fraud, waste, and mismanagement.

Management control is not a new concept in the Fiji Public Service. Effective agency managers should always use controls to make sure that things are going right. However, as discussed in Part 1, the main changes under the FMA are that: (i) responsibility and accountability for achieving these four objectives has been clearly devolved to agency CEOs; and (ii) Accounting Heads have specific responsibilities in regard to the second two objectives.

Responsibility and accountability for achieving these four objectives has been clearly devolved to agency CEOs and Accounting Heads

In addition, as emphasised in Part 1, it is people that make management control work. Everyone in an agency - managers and operational staff alike - have some responsibility for management control. Virtually all employees produce information used in management control or take other actions needed to effect control. Also, all personnel should be responsible for communicating upward problems in operations, non-compliance with the Code of Conduct, other policy violations or illegal actions. Consequently, it is critical that all staff know their roles and responsibilities, including limits of authority. These should be an explicit or implicit part of everyone's job description.

Everyone in an agency - managers and operational staff alike - have some responsibility for management control.

Management Control Components

The INTOSAI standards identify five interrelated components of effective management control: (i) Control Environment: (ii) Risk Assessment; (iii) Control Activities; (iv) Information and Communication; and (v) Monitoring and Review. Each of these is discussed below.

i. **Control Environment.** This is the foundation for the entire control system. Through words and actions management sets the tone of the workplace, its integrity, values and ethics. It depends significantly on the attention and direction provided by an agency's executive (CEO and senior managers), the management philosophy and operating style, the way authority and responsibilities are assigned, and the way personnel are organized and developed. The control environment is also greatly influenced by the extent to which individuals recognise they will be held accountable. Box 5 provides some tips to enhance a Ministry's control environment. This list is not all-inclusive; it can, however, serve as a starting point.

The Control Environment depends significantly on the attention and direction provided by an agency's CEO and senior managers.

Box 5: Tips for establishing an effective control environment

- ✓ The agency executive should meet at least monthly to consider high level reports on relevant financial and service delivery performance issues.
- ✓ Well-written policies and procedures should be readily available to all staff (hardcopy and/or electronic), such as: the corporate plan; personnel manual; finance manual; annual budget documents; circulars issued by the MFNP. Procedural manuals should cover employee responsibilities, limits to authority, performance standards, control procedures, and reporting requirements.
- ✓ Staff should be well acquainted with the Ministry's policies and procedures that pertain to their job responsibilities. Job descriptions for all staff should be up-to-date and clearly state appropriate responsibilities for financial management control and service delivery.
- ✓ Recruitment practices should result in the hiring of staff with the requisite knowledge, skills, and experience required for the position. In addition, an effective financial management training program for staff should be in place, including an induction program for all new commences.
- ✓ Employee performance evaluations should be conducted periodically. Good financial management performance should be valued highly and recognized in a positive manner.
- ✓ Appropriate and timely disciplinary action should be taken when an employee does not comply with policies and procedures or behavioral standards.

ii. **Risk Assessment[13].** Good practice highlights that an agency can perform more effectively through actively identifying and assessing internal and external risks that may prevent it from achieving its objectives. Risk assessment is the identification and analysis of risks associated with the achievement of operations, financial reporting, compliance, goals and objectives. This, in turn, forms a basis for determining how those risks should

Risk assessment is the identification and analysis of risks associated with the achievement of operations, financial reporting, compliance, goals *and objectives.*

[13] The topic of risk management is covered extensively in many management related publications. This Guide attempts to provide an introductory understanding of the concepts. Further references include the INTOSAI guidelines and the Australian Standards Risk Management (AS/NZS: 4360) http://www.saiglobal.com.au.

be managed. Box 6 summarises some of the issues that should be taken into account in the identification of risk.

Box 6: Risk Identification

A risk is anything that could jeopardize the achievement of an objective. For each of the agency's objectives, risks should be identified. Asking the following types of questions assists in risk identification -

> What could go wrong? How could we fail? What must go right for us to succeed? Where are we vulnerable? What assets do we need to protect? Do we have liquid assets or portable and attractive assets? How could someone steal from the agency? How could someone disrupt our operations? How do we know whether we are achieving our objectives? On what information do we most rely? On what do we spend the most money? How do we bill and collect our revenue? What decisions require the most judgment? What activities are most complex? What activities are regulated? What is our greatest legal exposure?

It is important that risk identification be comprehensive, at the agency level and at the activity or process level, for operations, financial reporting, and compliance objectives. Both external and internal risk factors need to be considered. Usually, several risks can be identified for each objective.

The following are some types of transactions that may pose higher risks to agencies depending on their nature of operations: tendering, particularly where purchase exemptions (sole source) are used; grants (meeting terms, not overspending, proper accounting); overseas travel expenditures, particularly acquittal of travel advances; payments to non-vendors; payroll over expenditures; loss of portable and "attractive" assets (eg lap-tops); misuse of government property, particularly vehicles; leakage of confidential information causing public embarrassment; nepotism in recruitment; and petty cash receipts and payments (if high volumes are processed).

After risks have been identified, a risk analysis should be performed to prioritise those risks. This analysis is based on three steps:

- assess the likelihood (or frequency) of the risk occurring;
- estimate the potential impact if the risk were to occur; consider both quantitative and qualitative costs; and

- determine how the risk should be managed; decide what actions are necessary.

When evaluating the potential impact of risk, both quantitative and qualitative costs need to be addressed. Quantitative costs include the cost of property, equipment, or inventory, cash dollar loss, damage and repair costs, cost of defending a lawsuit, etc. Qualitative costs can have wide-ranging implications to the agency and government such as violation of laws, poor audit findings, poor publicity and ultimately loss of public trust.

Prioritising helps focus attention on managing significant risks (*i.e.,* risks with reasonable likelihood of occurrence and large potential impacts).

The primary financial management risk categories are errors, delays, omissions and fraud. Box 7 expands on the characteristics of fraud.

Box 7: Characteristics of fraud

There are generally three requirements for fraud to occur:

- ***motivation*** is usually situational pressures in the form of a need for money, personal satisfaction, or to alleviate a fear of failure.
- ***opportunity*** is access to a situation where fraud can be perpetrated, such as weaknesses in internal controls, necessities of an operating environment, management styles and corporate culture; and
- ***personal*** characteristics include a willingness to commit fraud. Personal integrity and moral standards need to be "flexible" enough to justify the fraud, perhaps out of a need to feed their children or pay for a family illness.

It is difficult to have an effect on an individual's motivation for fraud. Personal characteristics can sometimes be changed through training and awareness programs. Opportunity is the easiest and most effective requirement to address to reduce the probability of fraud. By developing effective management control, opportunities to commit fraud can be removed.

iii. **Control Activities.** Effective policies and procedures can help an agency mitigate/reduce risks, detect and prevent irregularities and safeguard assets and records. Control activities include approvals, authorisations, verifications, reconciliations, reviews of performance, security of assets, segregation of duties, and controls over information systems.

Controls can be either preventive or detective. ***Preventative controls*** attempt to deter or prevent undesirable events from occurring. They are proactive controls that help to prevent a loss. ***Detective controls***, on the other hand, attempt to detect undesirable acts. They provide evidence that a loss has occurred but do not prevent a loss from occurring. Key standard preventative and detective controls are summarised in Box 8. Additional examples for the main control types are provided at the end of Part 2.

Preventive controls attempt to deter or prevent undesirable events from occurring. Detective controls attempt to detect undesirable acts once they have occurred.

Both types of controls are essential to an effective management control system. From a quality standpoint, preventive controls are essential because they are proactive and emphasize quality. However, detective controls play a critical role providing evidence that the preventive controls are functioning and preventing losses.

Control activities must be implemented thoughtfully, conscientiously, and consistently; a procedure will not be useful if performed mechanically without a sharp continuing focus on conditions to which the policy is directed. Further, it is essential that unusual conditions identified as a result of performing control activities be investigated and appropriate corrective action be taken. In establishing controls, consideration should be given to the extent and cost of controls relative to the importance and risk associated with a given activity.

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iv. **Information & Communication.** By getting the right information to the right people at the right time, an agency can enhance decision-making, performance reporting and the ability to meet strategic objectives efficiently and effectively. Information systems produce reports containing operational, financial and compliance-related information that make it possible to run and control the entity.

Effective information and communication can significantly enhance decision-making, performance reporting and the ability to meet strategic objectives efficiently and effectively.

Effective communication must also occur in a broader sense, flowing down, across and up the organization. All personnel must receive a clear message from senior management that control responsibilities must be taken seriously. They must understand their own role in the system, as well as how individual activities relate to the work of others. They must have a means of communicating significant information upstream, and externally as appropriate. Examples of standard controls over information systems are included in Box 8.

Box 8: Standard Preventative and Detective Controls

Approvals, authorizations, and verifications (preventative). Management authorises employees to perform certain activities and to execute certain transactions within limited parameters. In addition, management specifies those activities or transactions that need supervisory approval before they are performed or executed by employees. A supervisor's approval (manual or electronic) implies that he or she has verified and validated that the activity or transaction conforms to established policies and procedures.

Segregation of Duties (preventative). Duties are segregated among different people to reduce the risk of error or inappropriate action. Normally, responsibilities for authorizing transactions, recording transactions (accounting), and handling the related asset (custody) are divided.

Recording and Documentation (preventative). Transactions should be promptly recorded, properly classified and accounted for in order to prepare timely accounts and reliable financial and other reports. The documentation of transactions, management controls, and other significant events must be clear and readily available for examination.

Reconciliations (detective). An employee relates different sets of data to one another, identifies and investigates differences, and takes corrective action, when necessary.

Security of Assets (preventative and detective). Access to equipment, inventories, securities, cash and other assets is restricted; assets are periodically counted and compared to amounts shown on control records.

Controls over Information Systems (preventative and detective). Controls over information systems are grouped into two broad categories-general controls and application controls. General controls commonly include controls over data center operations, system software acquisition and maintenance, access security, and application system development and maintenance. Application controls such as computer matching and edit checks are programmed steps within application software; they are designed to help ensure the completeness and accuracy of transaction processing, authorization, and validity. General controls are needed to support the functioning of application controls; both are needed to ensure complete and accurate information processing.

Reviews of Performance (detective). Management compares information about current performance to budgets, forecasts, prior periods, or other benchmarks to measure the extent to which goals and objectives are being achieved and to identify unexpected results or unusual conditions that require follow-up.

Resolution of Audit Findings and Other Deficiencies (detective). Managers should promptly evaluate and determine proper actions in response to known deficiencies, reported audit and other findings, and related recommendations. Managers should complete, within established timeframes, all actions that correct or otherwise resolve the appropriate matters brought to management's attention.

v. **Monitoring and Review.** This enables a ministry to gauge progress against objectives and targets and respond appropriately. Management control needs to be monitored--a process that assesses the quality of the system's performance over time. This is accomplished through ongoing monitoring activities, separate evaluations or a combination of the two.

Monitoring and review should be integrated into ongoing operations and management.

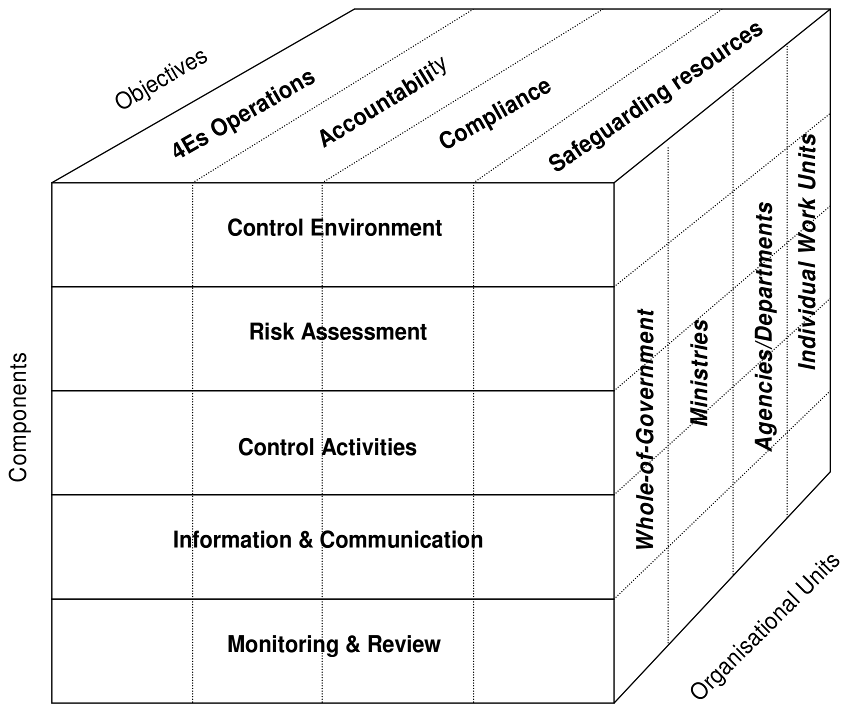
Ongoing monitoring occurs in the course of operations. It includes regular management and supervisory activities, and other actions personnel take in performing their duties. The scope and frequency of separate evaluations will depend primarily on an assessment of risks and the effectiveness of ongoing monitoring procedures. Internal control deficiencies should be reported to management, with serious matters reported to the executive.

Control Objectives and Components: a Final Glance

Together, the five control components form the building blocks for assessing and reporting on the whole management control process. As depicted in Figure 4[14], each component is interrelated with the four objectives of management control. When looking at any one objective, such as the 4Es of operations, all five control components must be present and functioning effectively to conclude that management control over operations is effective. Each control component row cuts across and applies to all four control objectives. Similarly, the control components need to be operational across all levels of government: whole-of-government; ministries; departments; and work units.

[14] Based on the diagram in the *INTOSAI Guidelines for Internal Control Standards for the Public* Sector, page 15.

Figure 4: Relationship of Control Objectives and Components



Developing Management Controls

The INTOSAI guidelines[15] identify that designing internal controls that are cost beneficial whilst reducing risk to an acceptable level requires judgment and a clear understanding of the overall objectives to be achieved. Otherwise, systems may be designed with excessive controls in one area of operations that adversely affect other areas of operations. For example, employees may try to circumvent burdensome procedures, inefficient operations may cause delays, and excessive procedures may stifle employee creativity and problem solving or impair the timeliness, cost or quality of services provided

[15] Guidelines for Internal Control Standards for the Public Sector, page 9.

to beneficiaries. Thus benefits derived from excessive controls in one area may be outweighed by increased costs in other activities.

Qualitative considerations should also be made. For example, it may be important to have proper controls over high risk/low monetary transactions, such as salaries, travel and hospitality expenses. Whilst the costs of control may seem excessive for the amount of money involved relative to overall government expenditures, they may be critical to maintaining public confidence in the probity of government.

Most controls are only as good as the people that operate them. An exception report that documents all the transactions that fail to meet standard criteria is only of use if the person who receives the report takes action to investigate and deal with the possible problems.

Most controls are only as good as the people that operate them.

The manner in which the management control is applied across an organisation will therefore vary with the nature of the entity and depend on factors such as the operating environment, size, structure, activities and degree of regulation - as well as consideration of the risks, costs and benefits discussed above. In this regard, part 10 of the FIs state that "the size, nature and scope of the agency's operations need to be considered, as well as any audit trails and checks built into the accounting systems it uses".

What Management Control Cannot Do

It is important to stress that no matter how well designed and operated, management control cannot provide *absolute assurance* that objectives will be achieved. It can only provide *reasonable* assurance.

No matter how well designed and operated, management control cannot provide absolute assurance that objectives will be achieved. It can only provide reasonable assurance.

Management control can provide information about the entity's progress, or lack of it, toward achievement of objectives. But it cannot change an inherently poor manager into a good one. Shifts in government policy or programs, or economic conditions can be beyond management's control.

In addition, the likelihood of achievement is affected by limitations inherent in all internal control systems. These include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the collusion of two or more people, and management has the ability to override the system. Another limiting factor is that the design of an internal control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs.

Reasonable assurance equates to a satisfactory level of confidence given consideration of costs, benefits and risks.

What is the role of Internal Audit?

Internal Audit is an important management function and is an extension of management control. Management is responsible for establishing the systems designed to ensure compliance with policies, plans, procedures, and applicable laws and regulations. Internal Audit is responsible for determining whether the systems are adequate and effective and whether the activities audited are complying with the appropriate requirements, and to formally report to management on the findings and recommendations.

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Whilst in general it is considered good practice for agencies to have an internal audit function, it may not be financially or technically practical, particularly for smaller governments/agencies. Consequently in the Fiji Public Service, the Internal Audit function is an independent function, centralised within the MFNP, and reporting to the CEO. It undertakes an annual program of independent reviews/audits of each agency to assess and report on the reliability, integrity, efficiency and effectiveness of the agency's internal management control systems. The findings and recommendations of the audit are formally reported to the agency CEO for discussion and comment.

PART 3: A REGIONAL PERSPECTIVE

The Importance of Sound Public Finances in PICs

The effective management and control of the public finances is at the heart of economic, social, and at times, even political developments in most countries. The design and firm implementation of a good public financial management system is therefore critical not only for the stability and sustainability of the public finances themselves but for economic performance and social development more generally. An efficient and effective system of public financial management is also increasingly seen as an element of international competitiveness and, therefore, comparative attractiveness as a location for investment.

The importance of sound public finances and effective public financial management is even greater in Pacific Island Countries (PICs). This is because of the unusually large size of public sectors in the region, with public expenditure in some countries close to 100 percent of GDP, and in a number of others well above 50 percent. As a result, fiscal policy and public financial management practices and decisions have a dominating effect on economic stability and development in most PICs.

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When assessing the scope for better economic performance in the PICs, attention has therefore shifted to the role and effectiveness of government or, more broadly, of the public sector. An additional concern is the longer-term sustainability of the public finances in general, and current levels of public expenditure levels in particular. The quality of fiscal activities and their effects on economic incentives and the allocation of resources are an important determinant of the effectiveness of government and development of the private sector. Attention to public financial management has been sparked by concerns about governance, accountability and transparency, as well as efficiency in the execution of government policies and use of public funds.

The quality of fiscal activities and their effects on economic incentives and the allocation of resources are an important determinant of the effectiveness of government and development of the private sector.

The most important regional development in this area was the strengthening of cooperation and coordination of economic policies in the context of the Pacific Forum's process of an annual Forum Economic Ministers Meeting (FEMM) to develop regional economic policy strategies and seek commitments to reforms in their support. The FEMM is an annual event at which the economic and finance ministers of all PICs, together with those of Australia and New Zealand, meet to discuss urgent economic and financial issues, take stock of progress in financial reforms, and agree on an agenda for action in the following year.

Eight Principles of Public Accountability

It was within this framework that a broad *Economic Action Plan* was agreed upon at the 1997 FEMM, which included the definition of the Forum Eight Principles of Accountability (Box 9) as well as a commitment by the PICs to adopt "*at a whole of Government level,(…) principles of "best practices" for public accountability."* [16]

Box 9: The Eight Principles of Public Accountability

1. Budgetary processes, including multi-year frameworks, to ensure that Parliament is sufficiently informed to understand the longer-term implications of appropriation decisions.
2. The accounts of governments, state-owned enterprises and statutory corporations to be promptly and fully audited, and the audit reports published where they can be read by the general public.
3. Loan agreements or guarantees entered into by governments to be presented to Parliament, with sufficient information to enable Parliament to understand the longer-term implications.
4. All government and public sector contracts to be openly advertised, competitively awarded and administered, and publicly reported.
5. Contravention of financial regulations to be promptly disciplined.
6. Public Accounts/Expenditure Committees of Parliament to be empowered to require disclosure.
7. Auditor General and Ombudsman to be provided with adequate fiscal resources and independent reporting rights to Parliament.
8. Central Bank with statutory responsibility for nonpartisan monitoring and advice, and regular and independent publication of informative reports.

[16] In 1998 the FEMM also endorsed the IMF's Code of Good Practice on Fiscal Transparency as a model on which Forum countries can draw. Refer http://www.imf.org/external/np/fad/trans/manual/intro.htm

There are a number of sub components underpinning each of these principles. The following elaborates on the first and fifth principle only, as these relate primarily to the budget formulation/presentation and regulatory framework respectively[17].

Principle 1 encompasses:-

- To be fully understandable, the budget needs to present all the details of budget performance including the results of audits and other evaluations, and the assessed impact including on the key objectives previously specified for major programs (showing estimates where final figures are not available).
- The budget presentation papers also need to include forecasts of the key budget figures for the next two years together with the details of the assumptions on which they are based and the policy objectives they are meant to serve.
- Existing commitments should be distinguished form new policies.
- Budget data including the full involvement of ministers, needs to be directed specifically at the generation of good estimates which are properly aligned with policy ad program output intentions.
- In keeping the management of the budget implementation under review during the course of the year, the government should give the legislature and the public timely reports as the year proceeds, as well as at year's end, which contain all of the details of actual budget performance which are needed for a full understanding of any impacts of deviations form the original budget policy intentions and estimates (using revised estimates where actual figures and results cannot be obtained).
- Government operations should be subject to audit.

[17] The other components can be accessed on the Forum Secretariat Website.

Similarly, Principle 5 encompasses the following components:-

- The principal and subordinate laws and instructions governing fiscal and financial management should be comprehensive, up-to-date and workable. Administration of the legal framework governing fiscal and financial management should be active and vigorous.
- Ethical standards of behavior for public servants should be clear and well published.
- There should be ready public access to the administrative laws governing access to government benefits, the application of taxes, duties and charges, etc, which should be as specific as possible and which should limit the exercise of discretion by public servants and other holders of public office to the minimum compatible with good administration. The exercise of discretion in public administration should be guided by clear, published criteria.

The direction of the FMRs in Fiji is very much aligned with the 8 Principles of Accountability. Forum countries are committed to undertaking biannual stock-takes and reporting to FEMM on progress in implementing the principles. The 2004 stock-take report is available on the Forum Secretariat Website (http://www.forumsec.org.fj).