Financial Management and Control within Overall Public Administration Reforms

Klas Klaas
Senior Policy Adviser
OECD SIGMA

Third Regional Conference on PIFC
Ankara, 4-6 June 2013
Summary of main messages

1. In order to develop more advanced elements of FMC, some basics need to exist in any public administration. These basics are often developed through other government reform areas, such as civil service, strategic planning or budget management.

2. More advanced objectives like efficiency and effectiveness are also determined through decision-making processes that are not usually driven by the CHUs.

3. Contrary to PIFC, public administration reform does not have a specific chapter within the EU accession process to push for changes.
FMC as part of EU accession process

The Chapter 32 includes:

- Financial Management and Control (FMC)
- Internal Audit (IA)
- External Audit (EA)

FMC appears the most difficult to advance

a) It cannot be built from zero
b) It is more than financial controls – it is about internal controls as defined by COSO

c) Interdependent with a variety of existing practices, interests and traditions within the public sector
FMC and management

- FMC can be properly implemented only when there is good management
- FMC alone cannot drive managerial reform
- FMC needs to rely the need for ‘trust’, ‘loyalty’ and ‘accountability’

There is consent that success in FMC is dependent on other reform areas relevant to public management
What is public administration reform?

• Public administration is the organised state apparatus that ensures the accomplishment of the executive power’s missions and responsibilities
  ▪ subjected to the rule of law, i.e. to internal and external controls

• Public administration reform (PAR) is about making changes in:
  ▪ the legal administrative framework of the state and
  ▪ its administrative/managerial practices in order improve the functioning of the state
PAR includes financial management

• A holistic approach towards PAR includes efforts at least in:
  • Civil service and public sector human resource management
  • Administrative organisation, procedures and oversight
  • Financial management
  • Policy-making and quality of legislation
  • E-government
  • Improvement of public services
  • Multi-level governance
Examples of concepts relevant to FMC

• Delegation and empowered decision-making
• Accountability and performance
• Risk management

1. These issues are not only about financial controls
2. Doing these in a way to achieve value for money, requires trust and a high level of professionalisation in public management capacities

But what are the basics?
Examples of basics for FMC

The following are important for the success of FMC in any country

• Clarity and transparency in responsibilities between public sector organisations
• Recruitment procedures that are transparent, enable the appropriate manager to influence the process and focus on merit
• Administrative procedures that ensure accountability for the delivery and quality of public services
• Regular annual work planning
• Provisions requiring estimations about cost implications when new projects and new laws are proposed
• Transparent public procurement procedures and practices
• Strong treasury function and clear cash management and accounting rules, with reliable accounting information
More advanced objectives of FMC: efficiency and effectiveness

Key processes where value for money is determined:
• Deciding the right strategic direction
• Making optimal choices for individual actions and allocating resources in the budget process
• Public procurement
• Management of assets, using these to the maximum potential

None of these are usually elaborated and developed by the CHUs but are important for the objectives of FMC
Sequencing of reform steps

Sequencing is needed but is more realistic within narrower reform areas,
- such as civil service, budget management, strategic planning or public procurement

Sequencing more widely is difficult:
- Many areas of PAR are interdependent
- PAR needs to be often opportunistic
Ensuring progress in PAR

• FMC, as part of PIFC, is driven by chapter 32 in the accession process.
  ▪ Hence demonstrated progress is needed for the EU candidates

• PAR has a growing emphasis within the regular progress reports by the EC but still not well enough supported by the accession process
  ▪ Does not include any provision of standards or sequencing for the EU candidates
Potential solutions by the countries

ideas for discussion

• CHUs to work with locally perceived problems, even if these seem very basic
  ▪ CHUs to drive in-depth analysis to detect problems with implementation

• To move the focus to PFM strategies that include PIFC targets
  ▪ Coordinated with wider PAR initiatives

• Work to optimise and improve existing procedures
  ▪ Methodology units for budget management in MSs

• Create stronger gatekeepers for financially sound decisions

• Transparency at all levels of decision-making