Public Sector Financial Management and Its Impact on Regional Integration

Case of GIFMIS Implementation

ICAG Annual Conference May 2012 [S. Terkper]

Public Financial Management (PFM)

- PFM may be defined narrowly, for our purpose as
  - Legal or administrative organizational structures, systems and procedures for managing public sector resources

- Responsibility of the following:
  - Ministries as well as Municipal, Metropolitan and District Assemblies (core civil service)
  - Departments, boards, agencies, authorities etc. (mainly, non-profit/self-accounting public services)
  - State-owned enterprises or SOEs (mainly profit-making Government business entities (GBEs))

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Public Financial Management (PFM)

- In practical accounting terms, activities cover:
  - Preparation of budgets and estimates and formulation of fiscal/financial accounting policies
  - Recording transactions: through accounting, internal control/auditing & procurement processes
  - Financial accounting: preparing Public Accounts—Government (sub-national, central & general {consolidated} and self-accounting entities
  - Reporting—publication of audited financial statements

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PFM resource management: some examples

- 2012 national budget
  - GHc15.6 billion: revenue (tax/non-tax) & grants
    - o/w: GHc12.0 billion through GRA a/c processes
    - 22.4% and 17% of GDP respectively
  - GHc 19.0 billion (27.2% of GDP): total current/capital expenses
    - o/w: wages (GHc5.1 b/7.2%; capital (GHc5.7b/8.2%) and transfers (GH5.7b/4.6%)
  - Mainly CAGD/BOG accounting/treasury processes
  - Substantial, even without SOEs/GBEs and other self-accounting units
  - Obvious that the lack of proper accounting systems in public institutions is wasteful of public resources

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Ghana Integrated Financial Management Information System [GIFMIS]

- GIFMIS to be official GOG recording system for budget, financial accounting and reporting
  - Also disbursements, internal control, and auditing requirements
- Apply IFMIS/FMIS standards and best practice
  - Defines a rational and comprehensive financial accounting regime for
    - Revenues (incomes), expenses, assets and liabilities
    - Integrated with Program-based budgeting (PBB)
    - Uses Oracle E-Business Financials Site

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Ghana Integrated Financial Management Information System [GIFMIS]

- Legislative and regulatory framework
  - Constitution (notably Chapter 13; Art. 174-189)
  - FAA (Act 654) and FAR (LI 1802)
  - Internal (Act 658) and External (584) Acts
  - Public Procurement Acts
  - GBE/self-accounting bodies’ Acts
  - Professional standards (IPSAS/IFRS)

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GIFMIS—regional PFM context

- ECOWAS and other inter/intra regional blocks
  - Common external tariffs (customs revenues)
  - VAT protocols and harmonization schemes
  - Income tax/tax incentive harmonization initiatives
  - Convergence (criteria) towards single currency (WAMZ)
- Global/regional standards
  - IMF Government Finance Statistics (GFS 2001)
  - IPSAS & IFRS (as national standards)
  - Harmonized systems (HS) code
  - Basel I-III for banks in public ownership

Some fiscal management issues

- Comprehensiveness of transactions and records
  - Resources outside consolidated funds
- Integrated Budget and Public Accounts
  - Budget control and public accountability
- Classification of transactions
  - Revenues, expenses, assets & liabilities
  - Use of omnibus/suspense/balancing items: contingency, arrears, discrepancy, multi-sector, etc
- Cash versus accrual accounting
  - Issue of arrears, WIP and long-term liabilities
- Appropriate legal regime, standards, and best practice
Scope of PFM reforms

- Ghana Revenue Authority (GRA) reforms
  - Unified HQ and integration
  - Improvement in tax processes
- GIFMIS
  - Integrated budget and financial accounting system
  - Improved Public Accounts
- Program-based budgeting (PBB)
  - Budget preparation, execution and control
  - Improved Budget and Estimates
- Internal and external auditing
- Decentralization (MMDA)
  - Legal, administrative and fiscal

GIFMIS—implementation plan

<table>
<thead>
<tr>
<th>Strategic Objectives/Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Phase I</td>
</tr>
<tr>
<td>• Upgrade Oracle E-Business Suite to Release 12</td>
</tr>
<tr>
<td>• Interim measures</td>
</tr>
<tr>
<td>• cash, commitment, and contract controls</td>
</tr>
<tr>
<td>• Treasury Single Account (TSA)—lead to comprehensive cash management system</td>
</tr>
<tr>
<td>• Payroll (IPPD2)/HRMS improvement</td>
</tr>
<tr>
<td>• Introduce GFS-compliant Chart of Accounts (FY 2012-14)</td>
</tr>
<tr>
<td>• Accounts: Revenue, expenses, assets and liabilities</td>
</tr>
<tr>
<td>• Budget: organization, functional &amp; economic</td>
</tr>
<tr>
<td>• Strategic codes: objectives, outcomes, outputs and activities (lead to Program Based Budgeting (PBB))</td>
</tr>
<tr>
<td>• Deployment to all MDAs/regional treasuries</td>
</tr>
<tr>
<td>• MMDA feasibility study (synergy with decentralization)</td>
</tr>
</tbody>
</table>
### GIFMIS—implementation plan

<table>
<thead>
<tr>
<th>Strategic Objectives/Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Phase II</strong></td>
</tr>
<tr>
<td>• Pilot Oracle Financial Accounting and Budget Modules in MMDAs (FY2013-14)</td>
</tr>
<tr>
<td>• GIFMIS integration with Payroll</td>
</tr>
<tr>
<td>• Develop parallel projects for comprehensive Payroll (IPPD2)/HRMS (including revised business processes)</td>
</tr>
<tr>
<td>• Further enhance TSA/cash management</td>
</tr>
<tr>
<td>• Procurement and development of Oracle Budget module</td>
</tr>
<tr>
<td>• Transition to Oracle Budget Preparation Module for 2014 Budget preparation</td>
</tr>
<tr>
<td>• Deploy MMDA (interim solutions) Pilot</td>
</tr>
</tbody>
</table>

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### GIFMIS—implementation plan

<table>
<thead>
<tr>
<th>Strategic Objectives/Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Phase III</strong></td>
</tr>
<tr>
<td>• Commence integrated Oracle E-Business Suite/Oracle [IPPD] Payroll operations</td>
</tr>
<tr>
<td>• Implementation of HR/Payroll Position Management</td>
</tr>
<tr>
<td>• TSA/cash management (link to BOG)</td>
</tr>
<tr>
<td>• Phased MMDA rollout</td>
</tr>
<tr>
<td>• Implement Oracle Fixed Assets (FA) in MDAs</td>
</tr>
<tr>
<td>• Full deployment of Budget modules</td>
</tr>
</tbody>
</table>
GIFMIS accounting modules

Oracle E-Business Suite Financials
- General Ledger (GL)
- Purchasing (PO)
- Accounts Receivable (AR)
- Accounts Payable (AP)
- Cash Management (CM)
- Payroll Management (HR Core)
- Fixed Assets (FA)
Structure of new Chart of Accounts (COA)

- Economic Entity
- Funding Classification
- Functional Classification
- Organization Classification
- Program and Sub Program Classification
  - Themes, Key Focus Areas, Strategic Codes
- Economic Classification
  - Expenditure
  - Revenue
  - Assets
  - Liabilities

Classification of Revenue

<table>
<thead>
<tr>
<th>Grouping</th>
<th>Codification</th>
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</thead>
<tbody>
<tr>
<td>Taxes</td>
<td>1100001-1199999</td>
</tr>
<tr>
<td>Social contributions</td>
<td>1200001-1299999</td>
</tr>
<tr>
<td>Grants</td>
<td>1300001-1399999</td>
</tr>
<tr>
<td>Other revenue</td>
<td>1400001-1499999</td>
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### Economic Classification of Expenses

<table>
<thead>
<tr>
<th>Description</th>
<th>Codification (up to 7 characters)</th>
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<tbody>
<tr>
<td>Compensation of employees</td>
<td>2111001 – 2199999</td>
</tr>
<tr>
<td>Use of Goods and Services</td>
<td>2210101 – 2299999</td>
</tr>
<tr>
<td>Consumption of fixed capital</td>
<td>2311101 – 2399999</td>
</tr>
<tr>
<td>Interest</td>
<td>2411101 – 2499999</td>
</tr>
<tr>
<td>Subsidies</td>
<td>2511101 – 2599999</td>
</tr>
<tr>
<td>Grants</td>
<td>2611101 – 2699999</td>
</tr>
<tr>
<td>Social Benefits</td>
<td>2711101 – 2799999</td>
</tr>
<tr>
<td>Other expense</td>
<td>2821001 – 2899999</td>
</tr>
</tbody>
</table>

### Classification of Assets and Liabilities

<table>
<thead>
<tr>
<th>Grouping</th>
<th>Sub Grouping</th>
<th>Codification</th>
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</thead>
<tbody>
<tr>
<td>Non Financial Assets</td>
<td>Fixed Assets</td>
<td>31  311</td>
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<tr>
<td>Inventories</td>
<td></td>
<td>312</td>
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<tr>
<td>Valuables</td>
<td></td>
<td>313</td>
</tr>
<tr>
<td>Non-Produced Assets</td>
<td></td>
<td>314</td>
</tr>
<tr>
<td>Financial Assets</td>
<td>Domestic</td>
<td>321</td>
</tr>
<tr>
<td></td>
<td>Foreign</td>
<td>322</td>
</tr>
<tr>
<td>Liabilities</td>
<td>Domestic</td>
<td>41  410</td>
</tr>
<tr>
<td></td>
<td>Foreign</td>
<td>412</td>
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</table>
Budget Classification

- Functions of Government
- Organization
  - MDA and MMDA
- Strategic Codes (GSGDA)
  - Objectives/Outcomes/Programs
  - Outputs/Sub-programs
  - Activities
- Geographical Location

GIFMIS—building blocks

- Set of accounting rules: access to Ledgers
  - through (WAN/LAN) across MDAs and MMDAs
- Transition: cash to modified accrual accounting
- IPSAS/IFRS standards—Financial and Fiscal
- Decentralized but integrated central & sub-national government classification systems
- Unified and structured coding of transactions:
  - GSGDA—strategic codes (thematic, KFAs, policies)
  - Budget Classification System (IMF/COFOG)
  - Chart of Accounts Government Wide
  - Geographic location codes
  - UNSPSC Standard for codification of commodities/assets
Financial and fiscal reporting

- **Financial reporting:** specific and consolidated positions of government accounting entities
  - Central, Local and General Governments
  - Parliament and the general public
  - Analytical to facilitate decision-making
- **Fiscal reporting:** impact of Government fiscal operations on the rest of the economy:
  - UN: Classification Of the Functions Of Govt (COFOG)—functional & organizational
  - IMF’s Government Financial Statistics (GFS)—economic classification

Regional PFM context: can we compete?

- **Global crisis and financial accounting**
  - Crisis has deep accounting roots, especially leveraging rules
  - Methods of accounting and levels of household, business and sovereign debt
    - Mortgage and credit card debts
    - Business (e.g., construction) and banking debt
    - Sovereign: availability and cost of sovereign debt
  - Intervention by governments & central/regional banks and multilateral institutions (QE/LTMR)
Regional PFM context: can we compete?

- A competitive global environment
  - Regional economic and social integration
  - Common regional regimes (single market and common currency)
  - Harmonization of tax and expenditure rules
  - Coping with pressures from the global economy
- These require a public sector that
  - Uses and accounts for resources efficiently and transparently
  - Facilitates government and private sector business through its institutions

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Regional PFM context: roles of accountants

- It is obvious that Accountants have a significant role
  - Formulation of accounting standards
  - Accounting for national resources
  - Comprehensive codification of transactions
  - Using resources to establish a competitive regulatory environment for business
  - Collecting taxes efficiently—accounts-based activity

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Thank you for your attention

Discussion and Questions