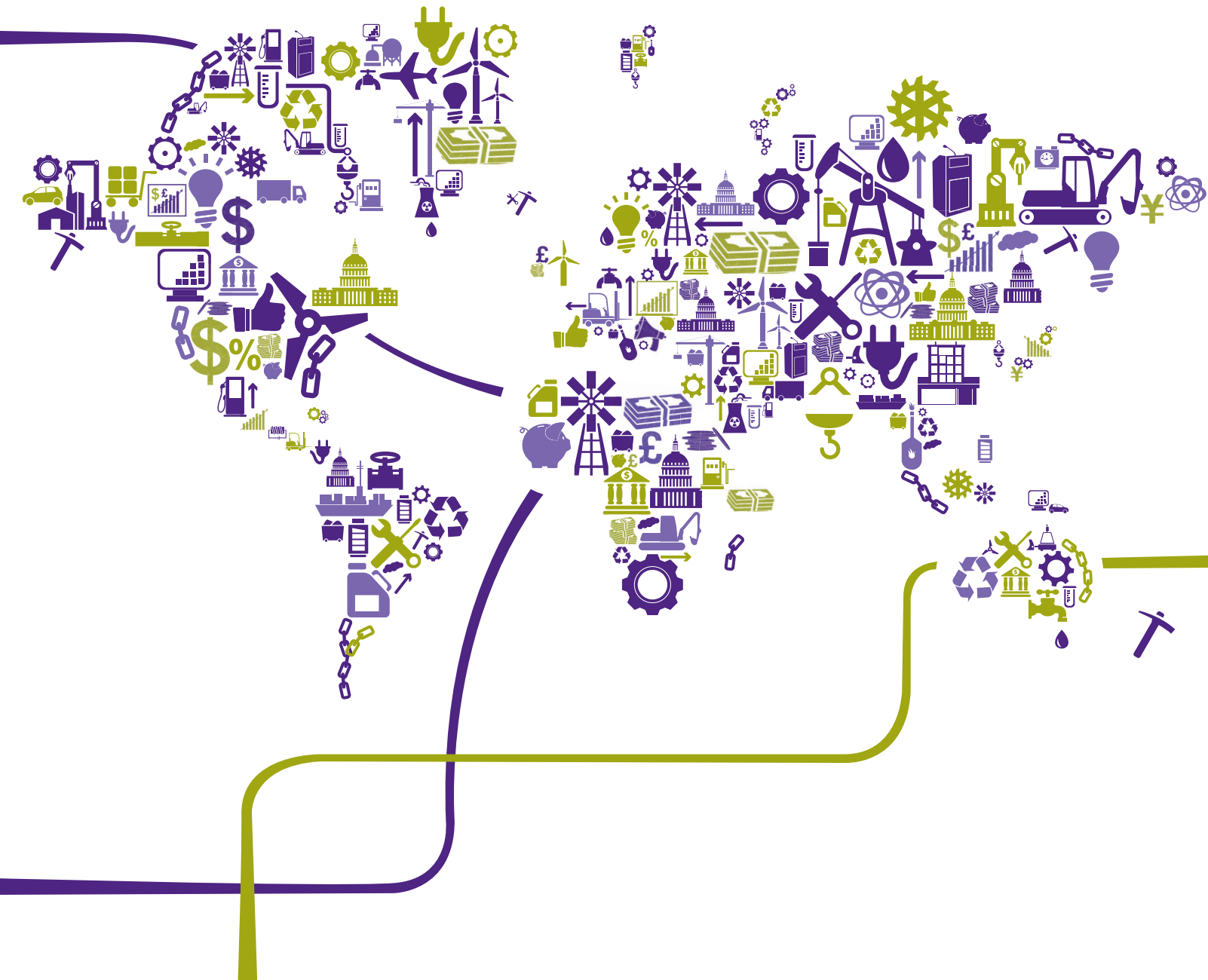


# Public financial management reform in a period of global adjustment

Results of a worldwide survey December 2013





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## Introduction

Public financial management (PFM) effectiveness continues to be challenged in most countries surveyed because of ongoing negative residual effects five years after the financial crisis. Yet, some survey respondents reported that the crisis encouraged the improvement of PFM practices.

Many observers have described how weak PFM systems contributed to, and failed to minimize the impact of, the financial crisis. The survey results show that PFM reform agendas include different and deeper initiatives. And, PFM priorities adapt as more is learned about the causes of the financial crisis.

One of the clear lessons that has been drawn from the crisis is that many governments did not sufficiently employ risk management into their PFM practices. As a result, they were caught off guard when adverse conditions triggered unexpected liabilities, forced public assumption of previously private indebtedness, and dramatically impacted revenues and trade flows. As these lessons have become clearer, discussions on risk management techniques relevant to the public sector have become part of the PFM debate.

While the debate about which specific risk management techniques are best suited to the public sector continues, there is general agreement that governments need to better understand the financial impacts of current policies and future unexpected events.

Another trend noted in the survey is that governments are more widely focused on more efficient and effective service delivery. Over one-half of respondents indicated they have incorporated better methods to measure the effectiveness and efficiency of service delivery in PFM practices. The most common method appears to be through incorporating performance management into the budget process, but many respondents indicate challenges in implementing a performance measurement system.

A key trend — with over 65 percent of respondents citing it — is a focus on improving public procurement to address the need for more effective outcomes of the process and better value for the money.

In short, PFM is evolving during this post-crisis period with a greater emphasis on managing risk and more focus than ever on efficient and effective use of resources that better meets the needs of citizens.



### KEY TREND

over  
**65%**

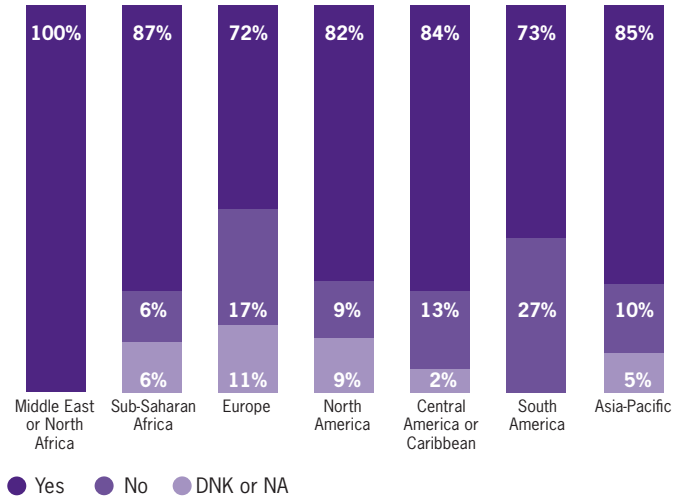
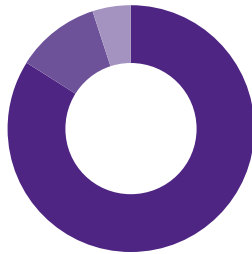
of respondents cited  
there is a focus on  
**improving public  
procurement**

## Continuing impact of the global financial crisis

Over three-quarters of all respondents said their country’s PFM reform agenda had been impacted by the global financial crisis and that this impact continues five years later. This breakout can be seen in Figures 1 and 2 below. Of those who cited an impact, one-half saw the impact as negative.

**Figure 1: Did the global financial crisis have an impact on your country’s PFM reform agenda?\***

- Yes **84%**
- No **11%**
- Do not know or not applicable (DNK or NA) **5%**

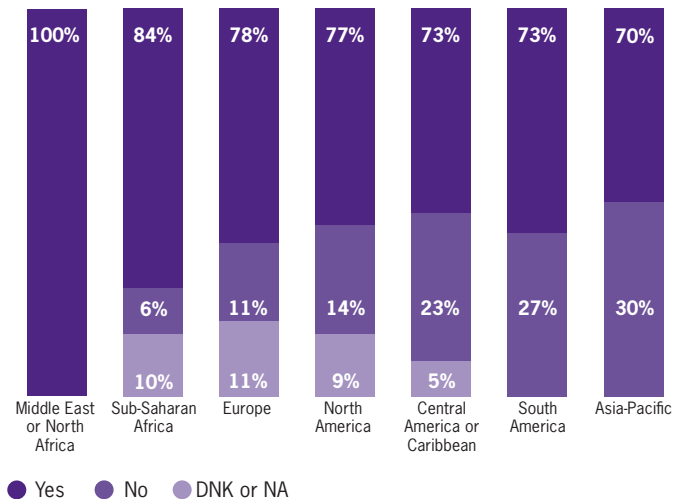
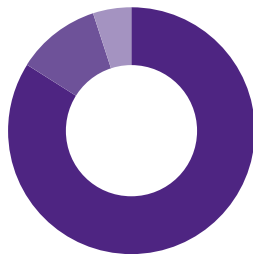


\*Responses do not total 100% due to rounding.

Regional differences should be interpreted with caution given varying country participation levels among online respondents.

**Figure 2: Did the global financial crisis continue to have an impact on your country’s PFM reform agenda?\***

- Yes **76%**
- No **18%**
- DNK or NA **6%**



\*Responses do not total 100% due to rounding.

Regional differences should be interpreted with caution given varying country participation levels among online respondents.

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Many respondents, particularly those from developing countries, cited examples of the crisis's negative effect:

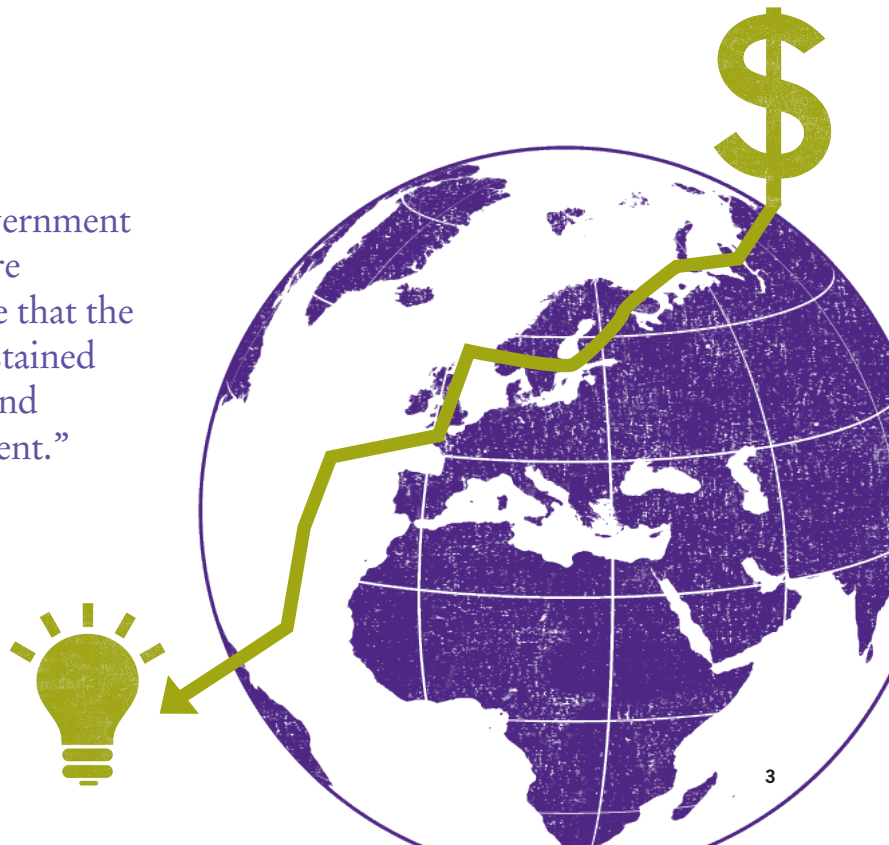
- “The global financial crisis has affected our budget credibility immensely, and this has been as a result of the country’s budgeted or forecasted revenue inflows not materializing as expected. Revenue inflow shortages can be attributed to reduction in export earnings of natural resources and poor performance on concession contract payments by foreign investors.”
- “Our deficit has significantly increased from under 10 percent to around 40 percent.”
- “The access to external resources has been restricted for the financing of development projects. Bilateral resources have changed their priorities for funding in developing countries, and multilateral sources have been reduced.”

Several respondents said that at least part of their public financial management reform initiative receives funding from multilateral and bilateral donors.

Although a positive impact on PFM resulting from the crisis seems counterintuitive, many respondents noted that the positive impact had been to provide an impetus to improve PFM practices. “The crisis triggered [us] to act in a more efficient and effective way to diminish administrative expenses, concentrate more on strategic plans, develop a strategy to implement internal controls, and develop a framework to make sure efficiencies are achieved in the ministry. Otherwise, they could just rely on increasing revenue and the high growth rate.” Another respondent noted: “The impact is positive because our government has initiated reforms in PFM, which are currently being implemented to ensure that the economic growth of the country is sustained through sound, prudent, transparent and accountable public financial management.”

While some respondents reported that the crisis had a minimal impact and did not require policy changes, it did provide support for the government to improve service delivery effectiveness and efficiency. In fact, one respondent noted that they utilized lessons learned from poor risk management practices of other countries that were exposed by the crisis.

“The impact is positive because our government has initiated reforms in PFM, which are currently being implemented to ensure that the economic growth of the country is sustained through sound, prudent, transparent and accountable public financial management.”



## Implementing risk management strategies

One of the clear lessons that has been drawn from the crisis is that many governments did not sufficiently employ risk management into their PFM practices. As a result, they were caught off guard when adverse conditions triggered unexpected liabilities, forced public assumption of previously private indebtedness, and dramatically impacted revenues and trade flows.

As these lessons have become clearer, discussions on risk management techniques relevant to the public sector have become part of the PFM debate. The percentage of respondents that explicitly introduced risk management into their PFM practices as a result of the global financial crisis is fairly evenly split, with 38 percent indicating “Yes,” 33 percent indicating “No,” and 29 percent indicating they did not know or were unsure. The discussion of risk management in the PFM context appears to be one of the permanent changes resulting from the crisis. This field, previously felt to be more relevant to private sector entities subject to the instability of market forces, is increasingly recognized as relevant to public finance.

The following are some examples of steps respondents have taken related to risk management:

- “We need to introduce risk management in the public agenda, but no specific risk management measures have been implemented.”
- “We were already considering risk management as a component of financial management. We are formulating policies at this time, but none have been implemented.”
- “A government office for the development of the internal control and risk management has been created.”

Although not cited as related to the crisis, one respondent noted, “In our PFM practices we are seeking to raise the game so that risk is considered in strategic planning, for example, in determining what levels of resilience we are prepared to resource in operational decision-making, so that desired levels of innovation and risk-taking are encouraged. Previous risk management practices focused on compliance with policies designed to mitigate or avoid risk.”

### Fiscal risks

An element of risk management that has gained particular focus has been the practice of identifying fiscal risks — those potential events that can significantly affect desired fiscal outcomes.

Forty percent of respondents indicated there were explicit processes in place to recognize fiscal risks as a result of the global financial crisis. Certain benefit programs or health care obligations can be massive risks to budgets in a number of countries. In explaining new processes established to recognize fiscal risks, respondents provided the following examples:

- “Under the PFM Reform Roadmap, fiscal risks were identified and short-term, medium-term and long-term measures are put in place to address the risks. The various projects being implemented by the government to address such risks are a government integrated financial management information system, budget reporting and performance standards, accounting and auditing reforms, improved Treasury cash management operations, liability management, and capacity building.”
- “Reform of the Public Finance Act to minimize supplementary allocations, establish a contingency fund and cut down on wasteful consumptive expenditures.”
- “[This takes place] specifically in budget preparation where various levels in the organization are consulted. The budget office works hand in hand with the planning unit so that only required activities in the normal course of operation and those priority programs and projects are given priority funding.”
- “A social health insurance scheme was introduced to help supplement health services. It requires public employees to contribute to health costs. There was an increase in budget to fund projects domestically, as opposed to depending on donor contributions. It required making choices in terms of priorities. Examples include infrastructure development (roads) and anti-virus medicines (HIV/AIDS).”

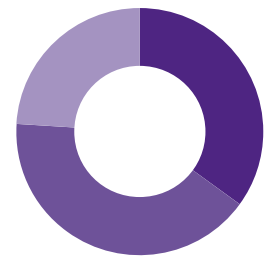
### Future costs of current policies

Another element of risk management is taking steps to better understand the financial impacts of current policies. Slightly less than one-third of participants have established improved methods for better understanding future costs of current policies (see Figure 3).

Respondents cited examples such as using impact assessments or scenario analyses, and preparing budgets and forecasting costs in conjunction with medium- and long-term strategic plan development.

**Figure 3: Better methods of understanding costs**

- Yes **31%**
- No **32%**
- DNK or NA **37%**



## Strengthening audit practices

One area of risk management that has been a key part of most countries is the establishment of independent audit functions. In turn, the public sector audit community has been a pioneer in using risk as a key factor in determining its focus, primarily through the growing use of risk-based audit techniques and agenda setting.

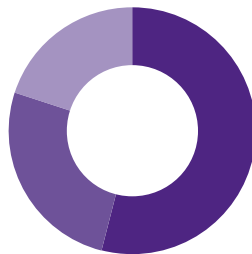
While independent external audit has been a key part of PFM in most countries for many decades, the use of the internal audit function has been relatively more recent. The survey addressed both internal and external audit.

### Internal audit

As countries around the world have continued to be impacted by the crisis in varying degrees, close to 55 percent of participants said their country implemented additional good practices with respect to internal audit (Figure 4).

**Figure 4: Strengthened internal audit practices**

- Yes **54%**
- No **26%**
- DNK or NA **20%**



Internal auditors were cited as integral to ensuring transparency and stressing independence was a common theme. Some respondents noted examples of organizational changes to achieve the independence felt to be a critical element of audit:

- “The internal audit function is now ‘independent’ of the Ministry of Finance or any other agency in the government. There exists a secretariat that operates like any other agency in the government, reporting to a governance board chaired by the minister of finance and membered by the auditor general, civil service director and chairperson on public procurement.”
- “Initially, the internal audit function was under the accountant general. Now they report directly to the parliamentary secretary (overall accounting/treasury) so there is more independence.”
- “Independence of internal audit to be strengthened by ensuring that they are separated from the Treasury and report directly to audit committees and to Parliament.”
- “There is an administrative order issued by the government, which mandates that all government agencies should have an internal audit unit [and] ensures that internal controls and other systems are in place within agencies.”

Representatives from several countries noted that internal auditors are rotated on regular intervals — from six months to every two years — to help ensure their independence.

In order to assess the future impact and possible costs, we developed an Excel-based model to calculate the present values of the projects and what could happen under scenarios and conditions in the future.



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### External audit

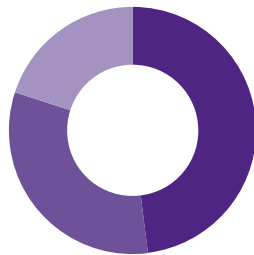
Respondents reported fewer improvements to external audit practices compared to internal audit practices, with less than 50 percent of respondents indicating they had made changes (see Figure 5).

This may be attributed to the fact that external audit has a much longer history of presence in PFM, with widely adopted international standards that have evolved over previously challenging periods.

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**Figure 5: Strengthened external audit practices**

- Yes **48%**
- No **32%**
- DNK or NA **20%**



Specific examples of improvements that were cited were often in the areas of training and capacity building. In addition, while there seems to have been less impact on external public auditors, some challenges were highlighted.

- “[The impact has been] recruitment of more external auditors and capacity building of external auditor [with] both local and overseas training for external auditors.”
- “Capacity building by sending more officers for professional training and building more offices in provincial centers for external auditors.”
- “More staff; new audit act; more focus on a risk-based approach in conducting audits; provided with the necessary software/hardware in order to conduct the audits.”
- “Nonexecutive directors were put onto the boards [of public companies] and they serve as private sector experts to advise on external challenges.”

## Utilizing procurement systems

Over 65 percent of respondents indicated they have introduced procurement system reforms to address the need for more efficient and effective PFM practices (see Figure 6). Measures include decentralizing procurement systems, introducing new procurement legislation, and introducing electronic procurement systems.

Specific changes respondents noted were that managers and executives had implemented improvements in procurement systems:

- “We promoted integration of the procurement module with the rest of the financial systems, linking procurement with budget, accounts payable and payments.”
- “Procurement and disposal of public assets were decentralized to ministries, departments, agencies and local governments as procuring entities. The system is no longer centralized, as was the case before. The procurements and disposals are now faster than in the past.”
- “[The procurement system] is being implemented via a Web-based platform for procurement and is having an impact on transparency, efficiency, and significant [cost] savings.”

One interviewee expanded on their improvements to the procurement process: “We introduced a public procurement agency and they introduced the electronic procurement system. Everything about public procurement is available on their website ... you can look at all the ongoing tenders and how the companies are competing to give the lowest price. It is in real time and accessible to everyone. There is also a meter on the website that measures the accounts that were maximized for each tender. There are fewer canceled tenders and more signed contracts. This is indeed a very efficient and effective practice in terms of public procurement.”

Others are still working on this process and stress the need for modifications to procurement policies and standards based on local context, rather than “copying and pasting” international standards that may not be relevant. One respondent noted that while a change in the procurement process would result in a more efficient and transparent system, this may be feasible only if there is a change in government. While most see good procurement practices as an improvement, one respondent warned that these practices can sometimes “cause a certain degree of ineffectiveness and bottlenecking.”

**Figure 6: Introduced procurement system reforms**

- Yes **67%**
- No **16%**
- DNK or NA **17%**



## Measuring the effectiveness and efficiency of service delivery

Over one-half of respondents indicated they have incorporated better methods to measure the effectiveness and efficiency of service delivery in the PFM practices (see Figure 7). The most common method is through incorporating performance management into the budget process, although implementing a performance measurement system can be challenging.

**Figure 7: Improved measures of effective and efficient service delivery**

- Yes **53%**
- No **23%**
- DNK or NA **24%**



The following are select quotes from respondents with respect to methods used:

- “A public expenditure tracking (PET) survey was introduced to cover a number of sectors, for instance, the health and education sectors were covered in 2013. Information from this survey was fed to support budget performance-related aspects in the preparation of the 2013/14 draft budget.”
- “Government agencies are allocating budgets according to their specific needs, which are measured according to accomplishments of their major final outputs. Performance-based incentives are being rewarded to those who deliver outputs according to targets and criteria, such as quantity, quality and timeliness.”
- “We still have a long way to go to establish proper performance indicators. In the Treasury, they have ambiguous performance criteria to achieve operations that are the most effective, timely and simple, but they are very general. What does a simple operation mean? Do you need to go through several stages of operation? These types of questions need to be better defined.”
- “We are conscious of the reality that many government initiatives are policy experiments, and hence performance information needs to relate to the dynamic needs of fast learning (or fast failing), which means a focus on identifying and measuring unintended outcomes, rather than (or at least not just) measuring desired outcomes.”



over  
**ONE-HALF**

of respondents indicated they have incorporated better **methods to measure the effectiveness and efficiency of service delivery.**

## Increasing transparency

Two-thirds of respondents indicated their country had increased measures to improve financial management transparency for citizens (Figure 8). As seen in Figure 9, the reported use of transparency measures for PFM is mixed across regions.

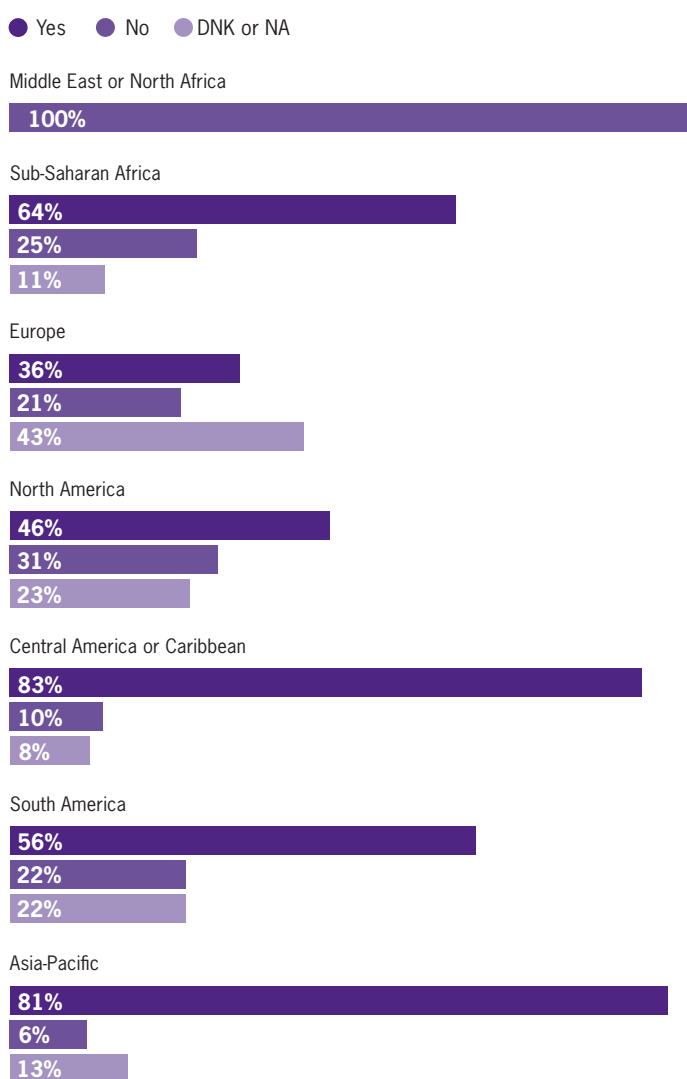
This includes policy changes, Web-based systems, and public awareness efforts and campaigns. The following quotes provide some insights into specific approaches that have been employed:

- “In terms of access to public information, there is a transparency portal [which] has as a guarantee for all actions of central government and decentralized institution [that] each citizen can follow-up on the use of funds so that the principle of accountability, which is the duty of each officer to answer to each citizen, is reflected in this portal.”
- “[There were] modifications to the transparency law so public officers can make their sworn statements at the beginning and end of their term.”
- “[The] Right to Information Act was introduced and rigorously enforced, and [the] flow of information was ensured to all stakeholders through appointment of public information officers in all government-funded entities. In addition all the relevant information was put on the websites of government ministries and institutions, and linkages were provided to other relevant sites.”
- “Aside from these (uploading data on website, daily monitoring and issue budget bulletin), our government is now working on a unified account code system and online submission of budget proposals for transparency.”

**Figure 8: Improved measures of financial management transparency**



**Figure 9: Transparency by region\***



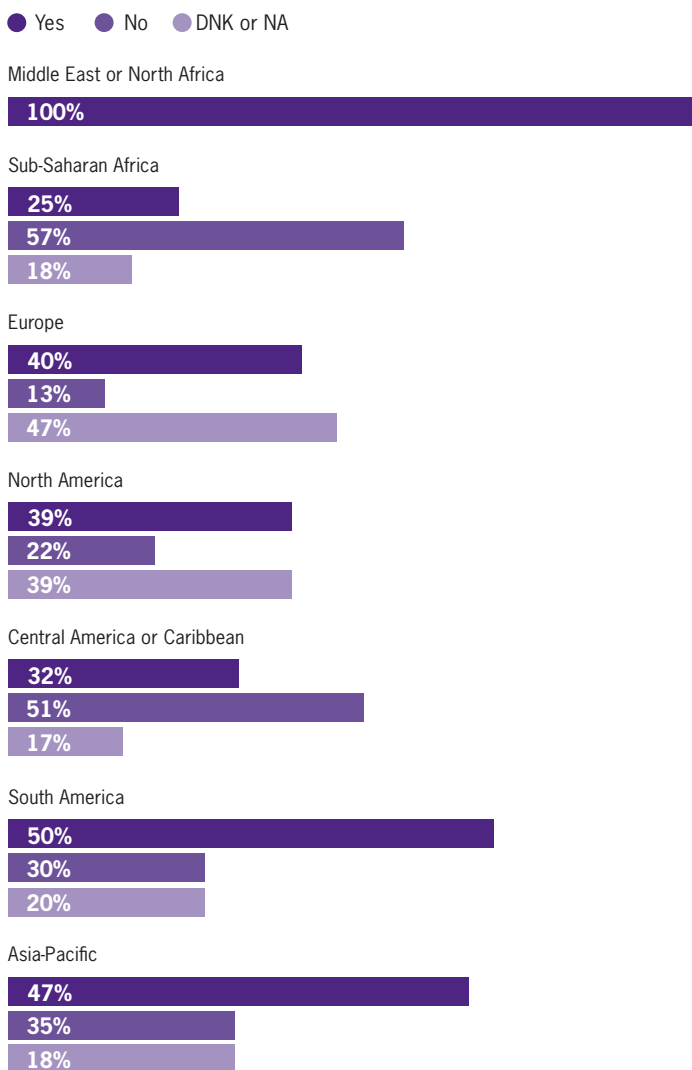
\*Responses do not total 100% due to rounding.

Regional differences should be interpreted with caution given varying country participation levels among online respondents.

## Social media

Linked to transparency is the use of social media. Social media has expanded exponentially globally but the use of social media with respect to PFM is mixed. Social media is seen as an effective tool for transparency, accountability and performance. Approximately 35 percent of respondents indicated they have incorporated social media as an element of their PFM system, while 41 percent indicated they had not. Almost one-quarter did not know or indicated the area did not apply. Regional breakdowns of social media use for PFM can be seen in Figure 10.

**Figure 10: Social media usage by region\***



\*Regional differences should be interpreted with caution given varying country participation levels among online respondents.

The most commonly used social media platforms in the public sector appear to be Facebook and Twitter:

- “The public debt management office has accounts on Twitter and Facebook to reach a wider investor base. It is also a good way to reach academics and students.”
- “We use Facebook to share ideas, best practices, etc., and collaborate with international organizations via social media.”
- “Social media is used to spread the contents of the annual budget and its usefulness as a policy instrument meant to transform the lives of the citizens. Social media is also used in creating awareness about PFM reforms and its impact on service delivery within the public sector.”

More advanced uses of social media include:

- “Each government agency has a page on Facebook and publishes all the news out of that agency. This is making activities more transparent. For example, people know about ministers’ travels through this page. Each and every activity undertaken by senior management is on there. This is the same with other line ministries.”
- “We are very into social media and digital data. The minister for the cabinet office is the lead on transparency and digital data. We are using big data to better understand performance. For example, we are using Google trends data to predict or provide early insight into what might be happening on migration. There is a focus on more real-time data and API formats that stream things into the center. Right now, some Excel spreadsheets [remain]; dashboards would be a good improvement there.”

Other respondents noted that social media platforms are not used often in their countries but did indicate that public dissemination of information is a priority. Several respondents cited examples of posting information to public websites among other transparency measures mentioned in the above section.

## Conclusions

In summary, the survey indicates that the post-crisis adjustments include changes in PFM priorities that may prove to be permanent. While the challenges have undoubtedly been great, many respondents indicated that the positive outcomes have been a greater focus on understanding risks that can impact fiscal outcomes, a greater recognition of the need for and benefits from transparency, and an ongoing focus on improving service delivery in a more efficient and effective manner.

The survey also indicates that the impact of the crisis varied in different regions of the world, and the responses have not surprisingly been different as well.

### About the survey

In 2004, the International Consortium on Governmental Financial Management (ICGFM) asked Grant Thornton International Ltd to conduct its first international survey of government financial executives, *Resisting corruption in the public sector*. In 2009, Grant Thornton conducted a second survey on behalf of ICGFM, focused on public financial management reform. This survey provided insight into the experience of national governments engaged in improving the management of public resources, as well as in making their finances more transparent and information more useful for managing public sector operations. The third survey, conducted in 2010 by Grant Thornton on behalf of ICGFM, focused on responses to the global financial crisis, infrastructure investment, public-private partnerships and transparency. This fourth and most recent survey, conducted in 2012 and 2013 by Grant Thornton on behalf of ICGFM, focuses on issues specific to countries in the process of implementing PFM reform five years after the global financial crisis.

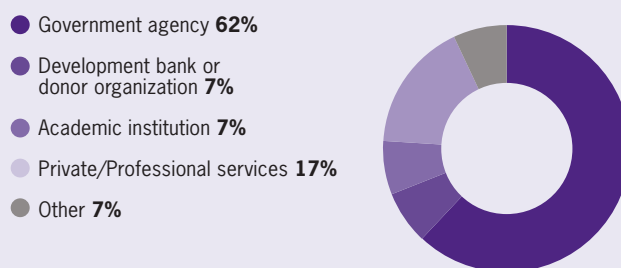
### Survey methodology

The survey was executed using both in-person interview sessions and through an online survey instrument available in multilingual versions. The population of respondents included approximately 62 percent employed by a government and 7 percent by development banks or donor organizations (see Figure 11). The remaining respondents were primarily from academia and private companies engaged in government-related activities. As seen in the map in Figure 12, participants represented 51 countries across North America, South America, Central America and the Caribbean, Africa, Europe, Asia Pacific, and the Middle East.

### Confidentiality

Our survey does not attribute thoughts and quotations to any respondents, nor do we name them, their institutions or specific countries. These measures were essential to gaining the confidence and full cooperation of the respondents who participated in the survey.

**Figure 11: Organizational affiliation of respondents\***



\*Responses do not total 100% due to rounding.

**Figure 12: Map of participating countries for online respondents**



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## Acknowledgments



### The International Consortium on Governmental Financial Management

ICGFM brings together diverse governmental entities, organizations and individuals who are financial management practitioners such as accountants, auditors, comptrollers, information technology specialists, treasurers and others working in all levels of government. Our mission emphasizes activities to promote professional development and the exchange of information. Our programs provide activities and products to advance governmental financial management principles and standards, and promote their implementation and application.

Internationally, ICGFM sponsors meetings and training conferences that bring together government financial managers from around the world to share information and experiences in governmental financial management to educate members and others about innovations, best practices and emerging issues. We also foster research concerning governmental financial management and disseminate information and results to our members and the public.

Working globally with governments, organizations and individuals, the ICGFM is dedicated to improving financial management so that governments may better serve their citizens. For more information on ICGFM, visit <http://www.icgfm.org>.

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