Public Expenditure Management
Peer Assisted Learning

Extending Coverage of Treasury to Directly Integrate Spending Units

Mark Silins

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Consolidation through Integration is the Objective of the Treasury and Has Many Advantages

- Coverage across general government including spending units improves the efficiency of consolidated reporting - budget, financial, and statistical
- It allows cash to be consolidated, eliminating idle cash balances – better able to forecast and manage cash across government
- It facilitates intra-government transactions – payments between government entities, for example, a school and the government printer. This reduces external transactions which must be eliminated when reporting on a consolidated basis
- It ensures comparability of fiscal data across similar spending units – allowing better reporting and analysis by sector, for example, the education sector
- It can also provide access to advanced systems for payments and receipts, accounting and reporting. Expertise regarding those systems is also available in the Treasury when issues arise – something which is very challenging for spending units given their small size, capacity and focus on delivering services rather than on financial management

Traditionally Extending Direct Coverage Beyond the Ministry Level was Challenging

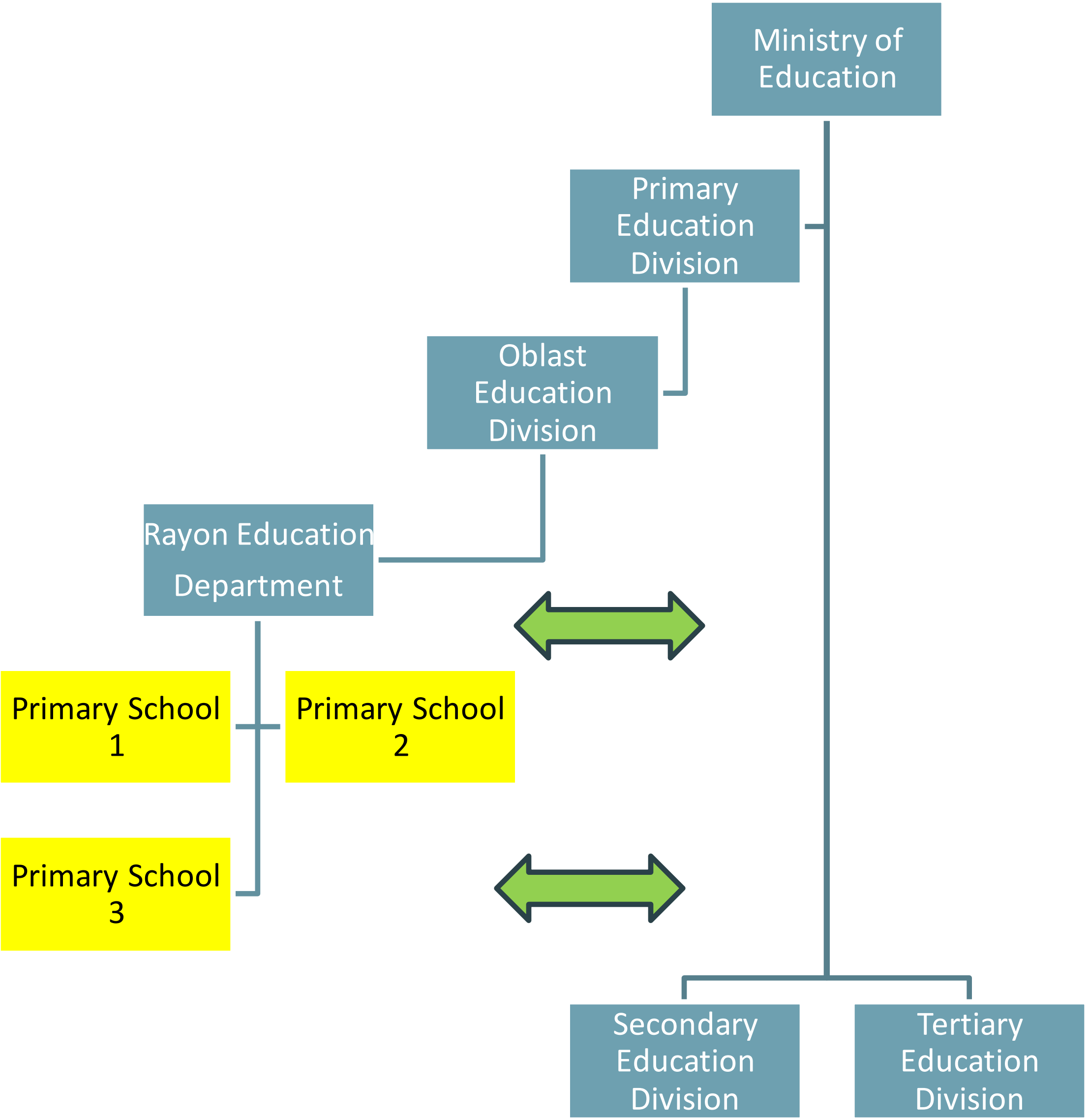
- FMIS and other e-tools were not in place so physical documents had to be moved from spending units to the processing and approval entity – time consuming and labour intensive
- Funds were sometimes redirected by the Treasury for other purposes when "cash" was in short supply
- Cash balances may include own source revenues, for example grants or parent contributions for schools – these often have their own reporting requirements and SUs were not always comfortable sharing this information – concerned that budget revenues could be reduced if they revealed other sources or funds
- Own source revenues unspent at the end of year not carried forward into the next year

Thus, the ability to service SUs properly and trust that funds would not be redirected were key reasons why SUs were not serviced directly by the Treasury

Traditional Integration of Spending Units – Through Ministry Hierarchy – Indirect Clients

Funding downwards is nested, with each level receiving its allocation and then allocations cascade down to each lower level

A risk in this approach is that funds disappear at each level – each level has its overhead costs and this may result in little money reaching the bottom



Payments may be made directly from SU bank accounts or pass back up the hierarchy manually to the Rayon Education Department

Traditional Integration of Spending Units – through Regional Treasury/Finance Hierarchy – Direct/Indirect Clients

Ministry of Local Government

Oblast Treasury

Oblast Government

Oblast Spending Unit

Rayon. Treasury

Rayon Government

Rayon Spending Unit

Local Government

Spending Unit 1

Spending Unit 2

Spending Unit 3

Spending Unit 4

SUs maybe serviced by the sub-treasury at the respective level or may send manual payment requests to their parent body who process them on their behalf

Funds may cascade down from the Ministry through Oblasts, Rayons to local Governments. Each level allocating to the next level down. The same issue may arise as with the nested ministries, funds are diluted at each level

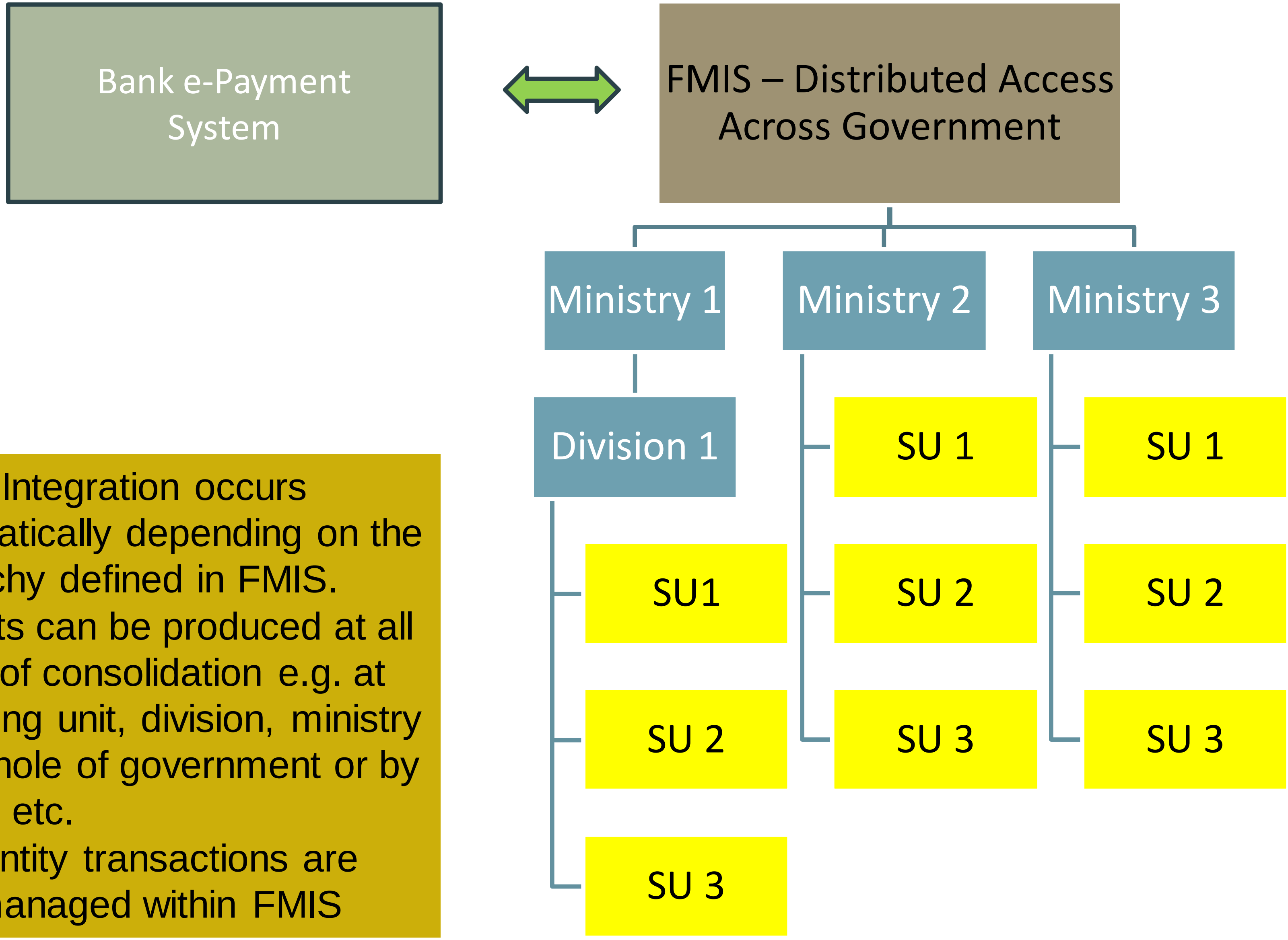
Modern Integration of Spending Units Processing – Three Major Options

Option 1 – Direct Integration Using the FMIS

Option 2- Direct Integration Using APIs/Portals

Option 3- Direct/Indirect Integration Using Third Party Software

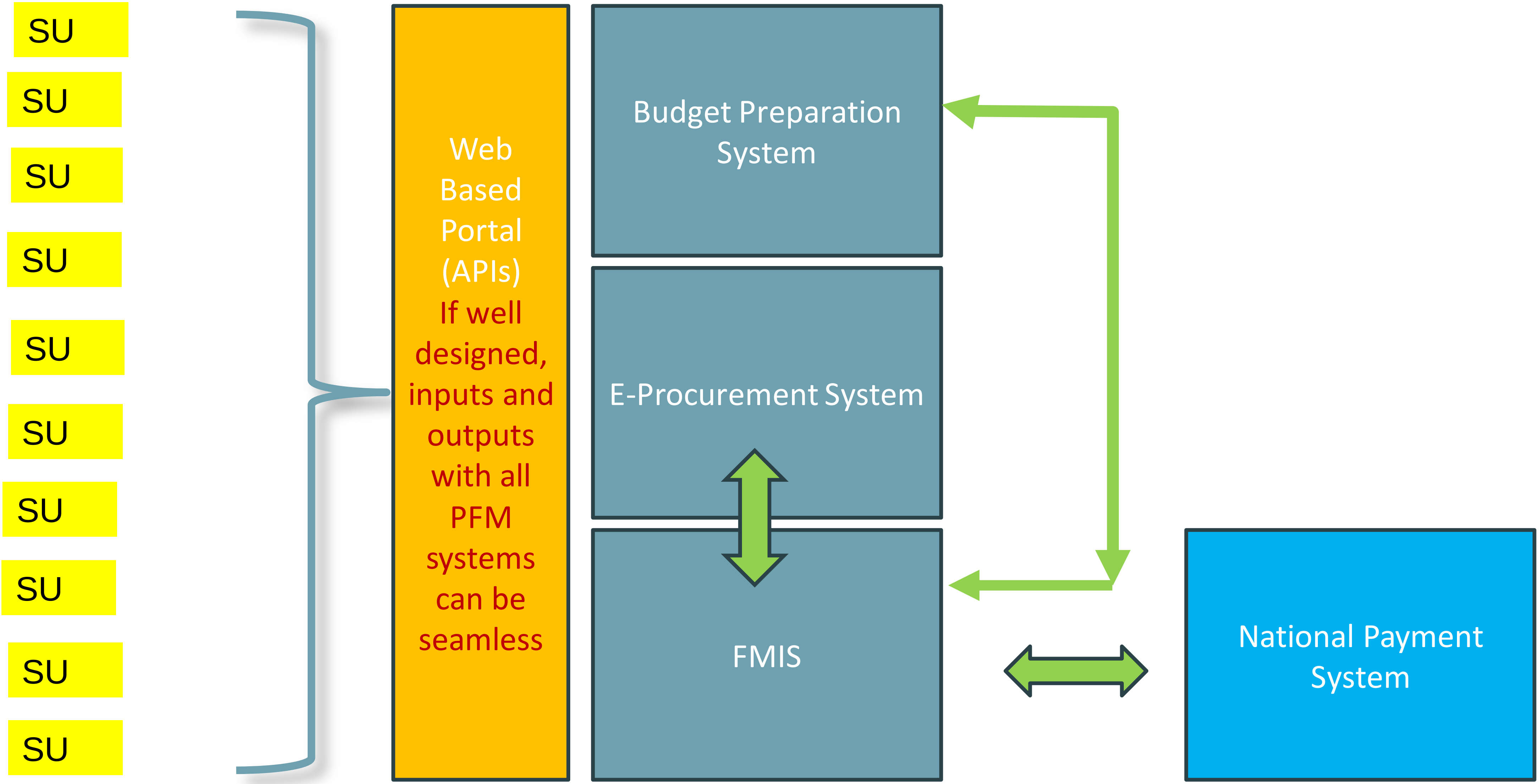
Option 1 – Direct Integration Using Direct Access to the FMIS



Direct Integration occurs automatically depending on the hierarchy defined in FMIS. Reports can be produced at all levels of consolidation e.g. at spending unit, division, ministry and whole of government or by Rayon etc.
Inter-entity transactions are also managed within FMIS

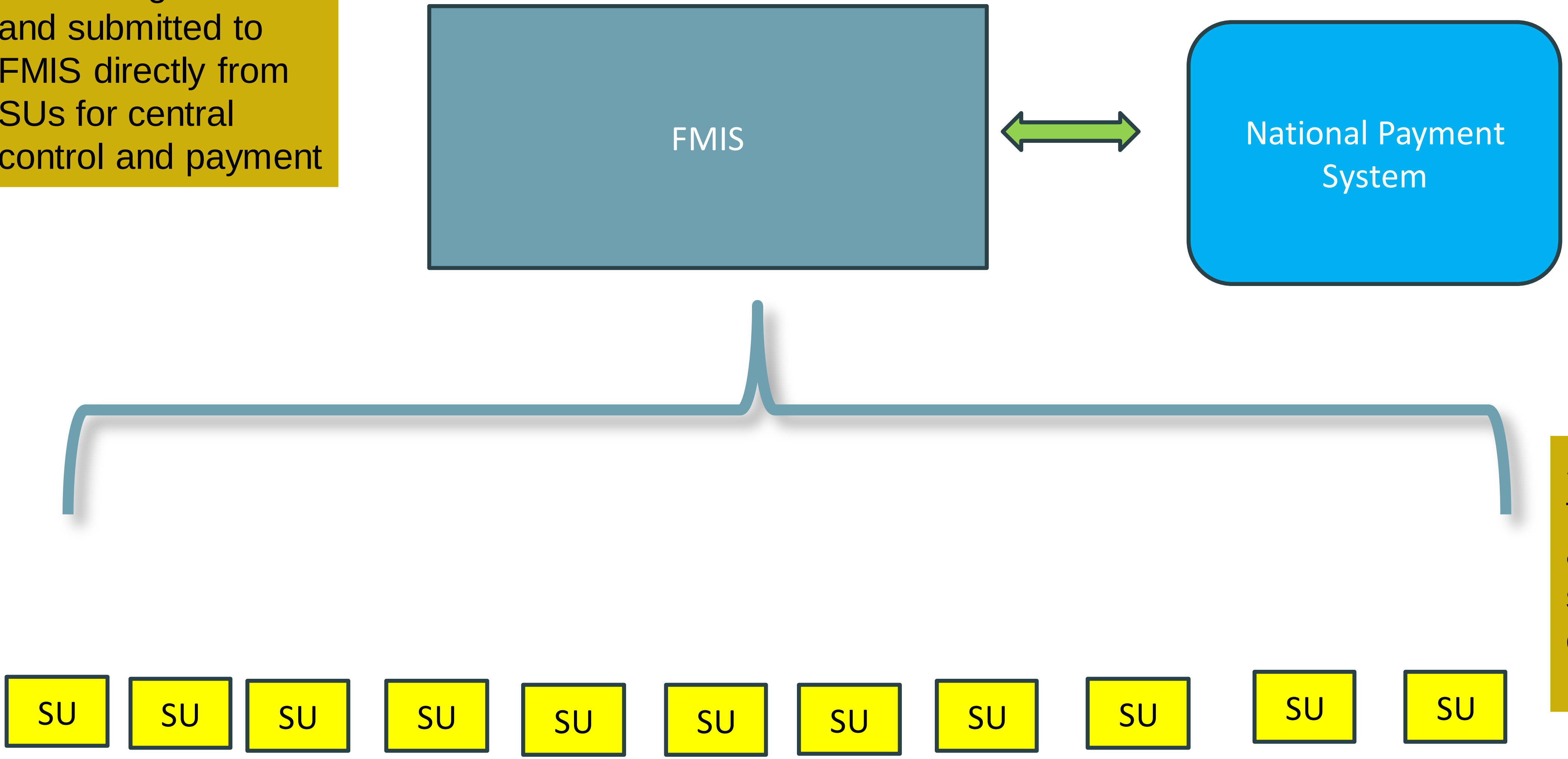
Ministries will still have a hierarchy e.g. divisions and departments – this is just to illustrate that SUs are clients of the FMIS but are still subordinate within the Ministry (or local government)

Option 2- Direct Integration Using APIs/Portals



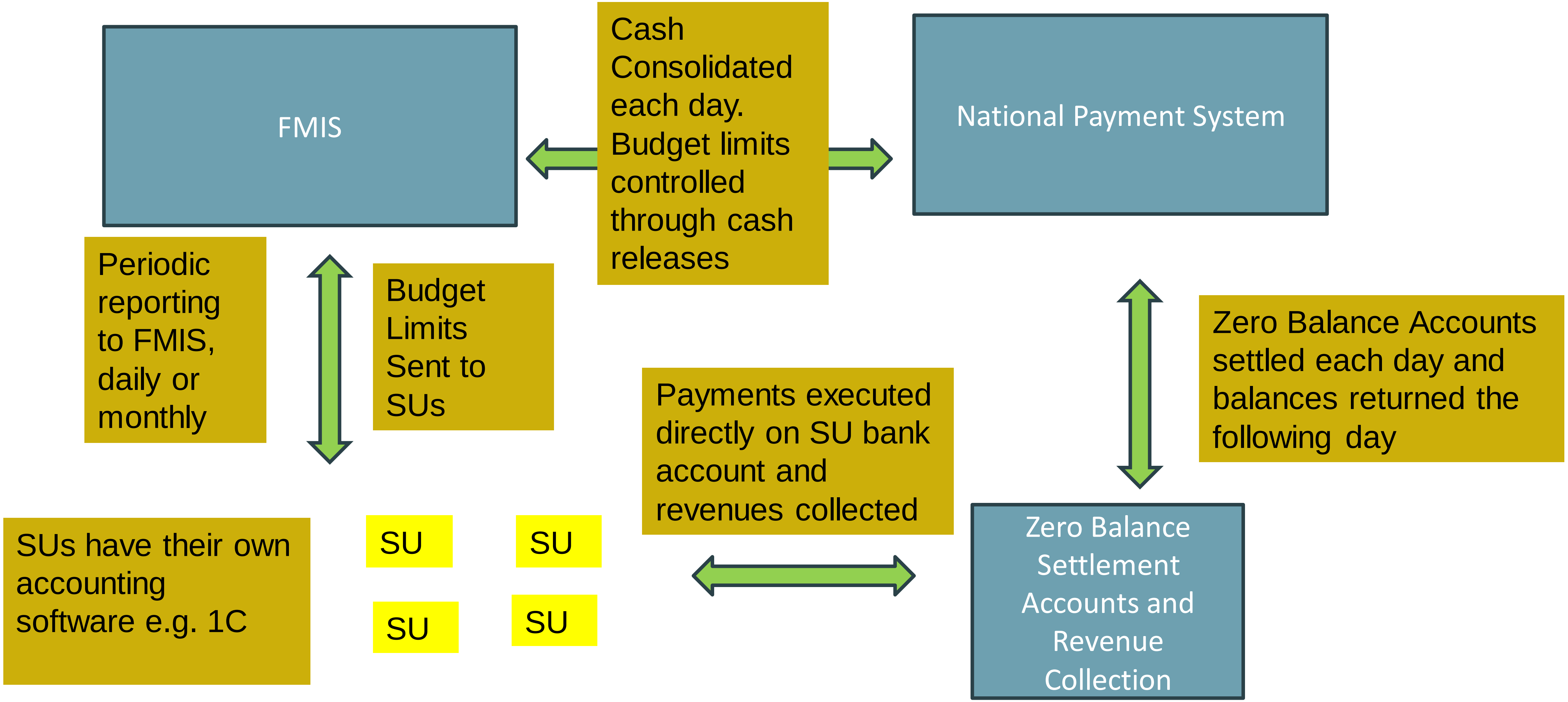
Option 3A- Direct Integration Using Third Party Software

Transactions are prepared in SU accounting software and submitted to FMIS directly from SUs for central control and payment

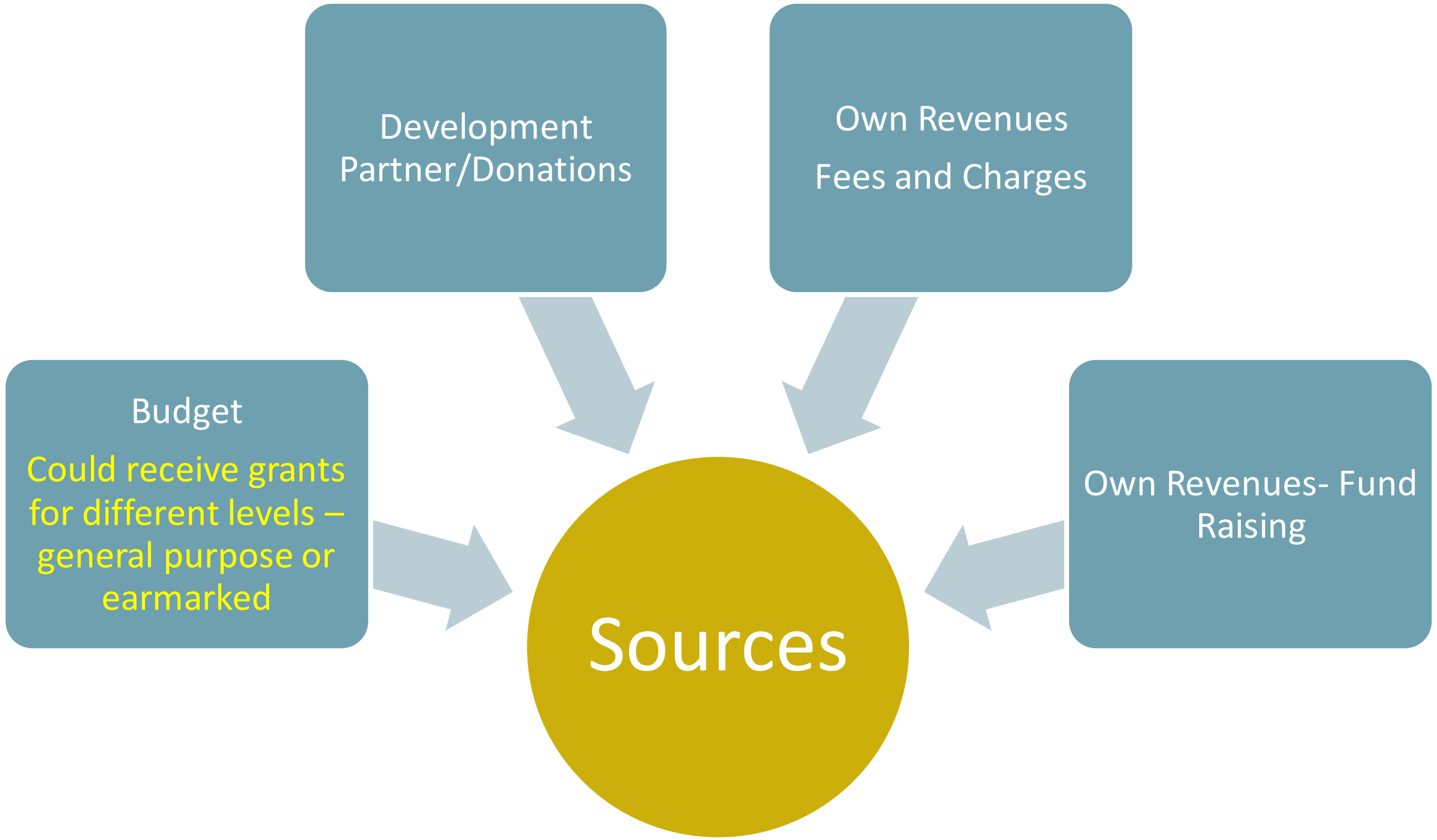


SUs have their own accounting software e.g. 1C

Option 3B – Indirect Integration for Payments but Direct Integration for Financial Reporting and/or Cash Management without Consolidating Transactions



Full or Partial Integration?



- Partial integration means dual systems are operating for control, accounting and reporting
- Ideally SUs should have one system for all sources which support reporting across all sources

Pros and Cons of Integration for Spending Units

- Cons
- Perceived loss of control - Treasury does not process payments when required or rejects payments without reasonable cause
- Cash Rationing – payments are processed with delays due to cash shortfalls
- Tools Treasury provides or processes in place are burdensome or not flexible
- Treasury does not share investment returns
- Reports are poor or non-existent – does the CoA meet Spending Unit reporting requirements? – e.g. all sources supported

Important that the SUs be treated as a client!

- Pros
- Treasury is an expert on cash management – better returns on cash surpluses
- Access to modern tools
  - Treasury provides the technical accounting software
  - payment and revenue mechanisms can be highly efficient
  - reduced costs for SUs (assuming treasury does not charge)
  - SUs can operate “directly” - no need to seek approval or submit to higher level entities “indirectly”
- Comparability with other spending units – potentially a more equitable system

What Treasury must consider if Direct Integration is to be Supported - SUs must be treated as clients

- Ensure Treasury meets SUs needs
  - CoA and system must support its reporting requirements e.g. separation of fund sources, sub-entity reporting if required, projects, etc.
  - ICT tools must be easy to use and reliable
  - Responsive support provided to SUs as needs arise –e.g. help desk, responses to reasonable issues within XX hours
- Treasury must also support other reporting requirements – for example SUs reporting to the local government, the parent ministry or development partners
- Treasury must assure SUs that budget will be executed as they need, not determined by Treasury cash management issues

Summary and Conclusions

- Modern technology makes integration possible - there is not one way to integrate nor is there one option for coverage of consolidation of the SUs
- Integration can improve accounting, reporting and cash management – FMIS can provide a more sophisticated tool than a small entity could afford
- It will also increase funds for SUs as less need for intermediate management levels - savings from the removal of nested distribution of funds and intermediate control levels
- It can also enhance overall management of the sector by ensuring comparable information is readily available for decision-makers
- At the same time, Treasury must be mindful that it does not see integration as a way to impose unreasonable control over SUs – they should be treated as clients and share in the benefits of integration!