**Questionnaire Results**

**on TCOP Practice in Budget Execution and Cash Management**

**Commitments, Accounts Payable and the Management of Arrears**

**PEMPAL**

**June 2015**

# Executive Summary

The issues of commitment control, recording accounts payable and arrears management and reporting have generated a great deal of interest in the Treasury COP. In 2015 the Leadership Group of TCOP decided to include these concepts as a core focus for the a plenary meeting in Tirana, Albania in May 2015. To this end a questionnaire was formulated an distributed to member countries in April 2015. The survey comprised 39 questions and was distributed in three languages, English, Russian and Bosnian/Croatian/Serbian. 13 countries responed to the survey, 11 providing responses to all the questions posed[[1]](#footnote-1).

While some consistent themes emerged from country responses to this survey, significant differences remains across PEMPAL countries and in comparison to good practice as defined in the questionnaire. Some of the variations will have resulted from a lack of clarity in questions. For example, the pre-commitment concept of a requisition may have gotten lost in the references to procurement, which is now often viewed as a separate control process in government. Reforms in each country have also been moving at different speeds, in terms of automation, devolution and regarding transition to either full or modified accrual accounting. Notwithstanding these differences, in some cases, country responses suggest significant gaps in basic controls and recognition, which would be required in any PFM process, including one which largely remains centralized and manual.



The following summarizes the key findings and issues from each of the seven stages on which the survey focussed.

**Stage One – Pre-Commitment**

* There appears to be some misunderstanding regarding what is meant by pre-commitment, given six of fourteen countries indicated they do not have any formal elements in their process. Most countries should have some element of pre-commitment, as this is also part of government procurement processes;
* Even those countries that indicated they had pre-commitments generally interpreted this to be part of budget planning rather than budget execution control (there is of course a strong relationship);
* The recording of pre-commitments also varies although seven of the eight responding countries record pre-commitments in either the central FMIS or MDA FMIS. This suggests that for these countries at least, this information will be available to compare against budget allocations and for budget control purposes.

**Stage Two - Commitments**

* Most countries indicate that they have a concept of commitments that accords with the example provided in the questionnaire;
* There is significant divergence across PEMPAL respondent countries in relation to the recognition and recording of commitments.
* Only five countries are issuing POs from an FMIS where appropriations are also controlled in a timeframe close to when the contract is signed - Issuing a system based PO to record the commitment from the FMIS close to the time the contractual obligation occurs provides strong budgetary control and can provide additional useful information for cash management;
* For other countries, POs are either not issued, issued some time later, or only when quarterly funds are released. This will result in suboptimal information for budget control and cash management.

**Stage Three – Receipt of Goods and Services**

* Just five countries recognize the receipt of goods and services in a central/MDA FMIS where budget controls can be maintained. Two countries remain largely dependant on non-FMIS based controls; and
* Five countries indicate that they do not recognise delivery of goods and services at all, which must be a major challenge for budgetary and internal controls and for recognition of liabilities required under accrual accounting.

**Stage Four - Receipt of Supplier Invoices**

* Seven countries are recording the receipt of invoices and matching these to the original commitments, five are not.
* This stage along with the recording of goods and services receipt, represent important control points in government. Countries that do not record these stages would find budget control, management and reporting very challenging. Managing these processes outside either a central or MDA FMIS would also be extremely challenging.

**Stage Five - Accounts Payable in the Accounting System**

* Nine countries indicate they recognize accounts payable, thus three do not. This number exceeds the number that recorded either goods or services or that matched invoices to commitments; and
* Only five countries have provided responses which are consistent across stages three to five of the questionnaire including how an accounts payable is recognized.

**Stage Six – Due Date**

* Just four countries appear to apply the concepts of due date and standard “terms of trade” consistently with the defintions provided in the questionnaire, despite seven countries indicating that the country defintions closely aligned with the questionnaire.

**Stage Seven - Arrears**

* Two thirds of countries reponding to this stage of the process define and report arrears;
* The absence of reporting in four countries is however concerning, as is the lack of consistency regarding the definition of arrears across respondent countries; and
* Only four countries incur penalties for delayed payment, which may result in a lack of incentives and consequences for effective payment administration in countries. Governments should be modelling good practice in relation to timely payment, particularly if it imposes fines and penalties to taxpayers for similar delays.

**Next Steps**

A key reason why TCOP undertook the survey was to gauge the conceptual differences and common points in relation to major stages in the budget execution process. The questionnaire has shown significant divergence across member countries which also suggests that further discussions and work would be warranted. This could include an expansion of the questionnaire process, or establishment of a specific working group. A number of isssues arose which could be a useful focus for such a group which are detailed in the final section of this report.

# Introduction and Background

## What are PEMPAL and the TCOP?

**The Public Expenditure Management Peer Assisted Learning (PEMPAL)** is a network of public finance professionals of the Europe and Central Asia (ECA) countries. These professionals benchmark their PEM systems against one another and pursue opportunities for ‘peer’ learning, which is increasingly understood to enhance knowledge transfer. PEMPAL comprises three communities of practice (COPs), including the Treasury COP, which focuses its activities on challenges in implementing reform initiatives in treasury and on issues that are of professional interest to its members.

**Background**

The issues of commitment control, recording accounts payable and arrears management and reporting have generated a great deal of interest in the Treasury COP. Earlier events and discussions within TCOP have revealed significant conceptual differences between countries when discussing these issues. In 2015 the Leadership Group of TCOP decided to include these concepts as a core focus for the a plenary meeting in Tirana, Albania in May 2015. To this end a questionnaire was formulated an distributed to member countries in April 2015. In all the survey comprised 39 questions and was distributed in three languages English, Russian and Bosnian/Croatian/Serbian[[2]](#footnote-2). 14 countries responed to the survey, 12 providing responses to all the questions posed[[3]](#footnote-3).

Each country has undertaken public financial management reforms in a different way and at a different pace; however, each country shares some common features: each is a transition economy and thus they have the same challenges in moving from a central planning approach to governance, to one which places an increased focus on devolution to Ministries, Departments and Agencies (MDAs) while seeking to retain strong central fiscal management; automation is a core component of the reform agenda providing an opportunity to consider reengineering of processes and elimination of duplicate manual steps and redundant controls.

The following report is divided into three sections. Section one suggest a model of “good practice” for budget execution control. This model was included with the survey to ensure a degree of uniformity in the country questionnaire responses. Section two presents the results and analysis of the survey responses from countries. Section three summarizes the key findings of the survey and suggests further areas of work for the TCOP. It also draws together some core conclusions from the survey results.

**Section One – Core Stages in a Good Practice Budget Excuction Process**

The following is a brief explanation of each stage of the budget execution process including a process flow diagram (see Figure 1) which was used to assist officials understand their current process and to benchmark them against “ good practice[[4]](#footnote-4).” Each country was requested to review the model before proceeding to answer the questionnaire which is included at Appendix A.

*Figure one – Suggested “Good Practice” Stages in Budget Execution*



**Stage 1 - Pre-commitment/requistion.** It is likely that some elements of pre-commitment will exist in each country. These elements may be entirely within the government financial management information system (FMIS), partially in the system, or entirely external to the FMIS. The processes may also be largely recorded manually, partially automated, or, as is becoming more common in countries, recorded in a separate procurement system that is designed to faciliate and control much of the pre-commitment requirements in accordance with procurement laws and instructions.

At this stage the decision to purchase goods or services is made. This may also involve the tendering process. For most countries the processes for selecting the successful vendor is determined by a market based assessment, with the rigor of the selection process increasing with the value of the goods or services to be acquired.

Ideally, a requisition records a value against the relevant budget/appropriation. However, at this stage it may only be a reservation against the budget, not a commitment, as this records the intention to purchase but it is not legally binding.

**Step 2** – **Recording of commitments for all contracts[[5]](#footnote-5) at the time the contract is agreed with a supplier.** This ensures that funds are set aside for the supplier, and that the Treasury has additional information about likely future cashflows in the accounting system for better cash planning and forecasting. Using a system generated purchase order also ensures that suppliers are aware that if they do not have this purchase order they do not have a guarrantee from the Treasury on behalf of the government regarding future payment. In some countries this external control ensures unoffical commitments by Ministries, Departments and Agencies (MDAs) are not supported by suppliers as they will not agree to provide goods or services unless they have this system generated purchase order to prove that the commitment has been officially recorded. The purchase order may be issued from a procurement system, however, if it is to be an effective budget and cash control, it must also be recorded in the FMIS system soon after the contract is signed.

**Step 3** – **Registration of the receipt of the goods or service.** In the private sector, this is generally recognised as the point in time a contract becomes a liability, or accounts payable. Receiving the goods and services in accordance with the contract means that payment should be made in accordance with the terms of the contract. Generally speaking the recording of the receipt of the goods or service should be separate from the payment processing controls which commence when you match the invoice to the purchase order.

**Step 4** – **Matching the invoice in the FMIS system with the purchase order/commitment[[6]](#footnote-6).** Many governments require the receipt of a correctly rendered invoice before recognising the accounts payable. Under the broader concept of accrual accounting, recognition is normally based only on Step 3. This is however, a reasonable additional level of countrol imposed by governments. In general, suppliers will submit invoices at the same time goods and services are delivered, thus recognising receipt of goods and services and matching the invoice to the system generated purchase order may occur largely at the same time. This is the time that the legal obligation, the contract, becomes a financial obligation. It also involves matching the invoice to the original commitment (purchase order) which provides a further check that the invoice remains within the originally approved commitment amount. Invoices that exceed the approved commitment amount[[7]](#footnote-7) should require further approval before being accepted for payment.

**Step 5** – **Pending Payment** - This stage represents the period between when the government recognizes the accounts payable, and makes the payment, which is often called the government’s “terms of trade” or “due date” for payment. Many countries define a standard terms of trade for making payments, for example 30 days[[8]](#footnote-8) after goods and services are received along with the correctly rendered invoice. The FMIS system would make the payments on the due date, neither late or early, to provide certainty regarding cashflows and also certainty for the supplier about when the payment will be made. Early payment would only be made if the supplier offered a discount which compensated the government for the “cash foregone” in making the early payment.

**Stage 6** – **Payments** are made on the due date automatically by the FMIS system (assuming no cash rationing). The payment is both a cash and accrual transaction. Under accrual the accounts payable or liability is reduced. As all the earlier steps are also within the FMIS system, the Treasury can largely release all payments each day, subject to having sufficient liquidity to cover these payments. Ideally the treasury will actively manage and forecast its cash requirements and seek to ensure adequate cash is available each day[[9]](#footnote-9).

**Stage 7 – Arrears - Delayed payments.** Ideally stage seven does not occur. The “due date” ensures that the concept of an arrear is well defined as it will be all the payments that are not paid by the due date. Aging arrears now also becomes possibilty by requesting a system based report for those payments which exceed 30 days, 60 days, etc.

**Section Two - Questionnaire Responses and Analysis**

The questionnaire was also structured in seven stages to reflect the structure of the “good practice” procurement and budget execution process. The following section includes graphs, tables and text of the key findings from each set of questions.

**Stage 1 - Pre - Commitment.**

This stage comprised four questions.

The survey presumption was that for many countries the pre-commitment phase is dealt with under procurement rules and laws. This survey was not seeking to determine the nature of procurement arrangements in detail, as this would require a survey in itself. The focus was in relation to whether pre-commitment also records a reservation against budget allocations for control and planning purposes, sometimes referred to as a requisition.

***Q1. Does your country have a pre-commitment stage in the budget execution process[[10]](#footnote-10)?***

Interestingly, only eight of fourteen countries indicated that they had a pre-commitment stage. As pre-commitment would normally include the procurement stage of budget execution and the initial decision to purchase goods and services, it is likely that all countries have some elements of pre-commitment. There may, however, be some misunderstanding regarding the relationship of the procurement process, and the commitment stage of the payment and budget execution process.

Of the eight countries that indicated they had a pre-commitment stage (See table 1), three indicated it was defined in both the Public Financial Management (PFM) and Procurement laws; one indicated that this was defined in both the Public Financial Management (PFM) Law and the Law on Fiscal Responsibility; two indicated it was in the Procurement Law and budget execution instructions (other legislative instruments); one indicated that it was defined in a Cabinet Resolution (other legislative instruments); and one did not indicate where it was recorded . One further country indicated that it was subject to the individual instructions of each Ministry, Department and Agency (MDA). This later response is from an EU accession country and therefore it is most likely that additional general procurement legislation also applies.

***Q2. Where is the pre-commitment stage defined in your Public Financial Management Process?***

*Table 1 – Legislative Basis for Pre-commitments*

|  |  |  |  |
| --- | --- | --- | --- |
| **Country** | **Budget Law** | **Procurement Law** | **Other (please specify)** |
| **Albania** |  | X | Instruction no.3, dated on January 17, 2014, titled: "On Budget implementation for 2014 year" |
| **Croatia** | X |  | The Law on Fiscal Responsibility, rulebook on the method and conditions of state budget execution, transfer of funds to the state budget and keeping records on transferred finances. |
| **Kazakhstan** | X | X |  |
| **Kyrgyz Republic** | X | X |  |
| **Montenegro** |  | X | Instructions on the State Treasury Operations |
| **Russia** | X | X |  |
| **Tajikistan** |  |  |  |
| **Ukraine** |  |  | Resolution of the Cabinet of Ministers of Ukraine 23.04.2014 №117 |
| **Total** | **4** | **5** | **5** |

***Q3. Where are MDAs required to register pre-commitments?***

The recording of a pre-commitment, sometimes referred to as a requisition, can be useful for planning and budget execution control. However, if it is to be useful it must be recorded and available for reporting and analysis. Figure 1 shows a variety of responses from the eight countries that indicated they had pre-commitments. Two countries record pre-commitments in the central FMIS only. Four countries record pre-commitments in the procurement system and either the central FMIS or a MDA FMIS; one country records pre-commitments in both the central and MDA FMIS, and a further country records pre-commitments only in a register in the MDA.

*Figure 2 – Recording of Pre-Commitments*

***Q4. Briefly summarise what the pre-commitment stage requires in your country***

Seven countries provided written responses to this question. In the main the responses to this question related to budget planning rather than budget execution. The exception was Albania, which indicated that pre-commitments provide an overall budget control mechanism. Only spending that is within the medium term budget planning framework is allowed to progress to the commitment stage. Russia, Montenegro, Kazakhstan and the Kyrgyz Republic indicated that pre-commitments are part of the overall procurement and budget planning process. Croatia indicated that it has a number of different categories of reservations within the accounting system to cover different types of liabilities.[[11]](#footnote-11) Macedonia indicated that this stage was entirely devolved and up to each MDA to define.

The open nature of this question and the broad description regarding pre-commitments has probably reduced the effectiveness of the responses from countries. This section may lend itself to a more specific country-by country process analysis to better define each of the steps involved.

**Conclusions**

There appears to be some misunderstanding regarding what is meant by pre-commitment, given six of fourteen countries indicated they do not have any formal elements in this process. Most countries should have some element of pre-commitment, as this is part of procurement. Even those countries that responded generally interpreted pre-commitment to be part of budget planning rather than budget execution control. This section of the questionnaire was designed to determine whether pre-commitment financial controls are in place in respondent countries. This may have become lost in the references to procurement processes which are much broader.

Countries have a variety of ways of defining pre-commitment including PFM and procurement laws and in some cases other legislative instruments. A number define pre-commitments in a number of laws.

The recording of pre-commitments also varies although seven of the eight responding countries record pre-commitments in either the central FMIS or MDA FMIS. This suggests that for these countries at least, this information will be available to compare against budget allocations and for budget control purposes.

In recent years, procurement has emerged as a separate control activity of government, with specialist functions evolving outside of the traditional budget execution control processes. This has often been accompanied by the creation of separate procurement systems. While these enhanced controls are important, the separation from budget execution maybe reducing the effectiveness of these pre-commitments for budget control and cash management. This could be an area for review in the future.

**Stage 2 – Commitments**

This stage comprised nine questions.

***Q5. Does your country have a commitment stage in the budget execution process?***

All twelve countries that responded to these questions indicated that they had a commitment stage in the budget execution process.

***Q6. Where is the commitment stage defined in your Public Financial Management Process?***

As Figure 3 demonstrates the majority of respondent countries, seven, define the requirement for commitments in the general PFM Law. Two of these countries also define commitments in the Procurement Law with one further country defining commitments in just the Procurement Law. **While there is nothing conceptually wrong with defining key processes in more than one law there is a risk of inconsistencies in relation to those definitions.** In total seven countries define commitments in other legislative instruments (three of these also define commitments in either the PFM or Procurement Law or both). Four of these countries include the definition in a range of subsidiary legislative instruments including instructions (Albania and Montenegro), a rule book (Croatia) and a decision of the Ministry of Finance (Belarus).

*Figure 3 – Legal Basis for Defining Commitments*

***Q7. Does this definition closely align with the defintion reflected in Stage 2 above?***

***Q8. If no, what are the key differences in your country’s definition?***

Ten countries indicate that their definition of commitments closely aligned with the definition which accompanied the Questionnaire. Two countries, Montenegro and Russia, responded no to the question, however, in both cases the additonal written explanations provided suggested a strong concurrence with the conceptual defintion provided.

***Q9. Where are MDAs required to register commitments?***

Ten countries indicated that commitments are recorded in the central FMIS. One country also indicated that it was the Treasury Department ( but not in the FMIS – Macedonia) and a further country indicated it was in regional treasury offices (this was the Kyrgyz Republic which does not have a distributed system across its treasury offices). Two countries also record commitments in the procurement system and four in the MDA FMIS. Of these, Russia records commitments in three systems, Procurement and both the central and MDA FMIS.

*Figure 4 - Recording of Commitments*

***Q10. What are the categories of spending covered by Commitments?***

Table 2 indicates that the categories of spending covered by commitments is very similar across all eleven respondent countries with all but debt recorded in each country. Georgia also indicated that it includes a simplied quarterly commitment process for social spending. If this spending is largely recurrent pension benefits then it would be more akin to salary payments than for spending on goods, services or capital[[12]](#footnote-12).

*Table 2 – Commitments and Types of Spending*

|  |  |
| --- | --- |
| **Type of Spending** | **Number of Countries** |
| Utilities | 11 |
| Other goods and services  | 11 |
| Capital spending | 11 |
| Project spending | 11 |
| Debt Servicing  | 4 |
| Other – please specify | 1 |

***Q11. Is a purchase order issued for all commitments?***

***Q12. If yes is the purchase order issued from the same system that also controls spending against the budget and appropriations?***

Until this point in the commitment stage of the questionnaire, the responses had been relatively consistent across countries. However, only six of the eleven countries that indicated they record commitments for spending also issue purchase orders for those commitments, thus five do not (Figure 5). One of the six countries that issues purchase orders does not do it from the same system that controls the budget and appropriations[[13]](#footnote-13).

*Figure 5 – Purchase Orders and Commitments*

***Q13. At what stage of the budget execution process are commitments recorded?***

Twelve country responses were received for this question with some variations across countries (Figure 6). Five countries indicated that commitments are recorded once a contract is signed. A further two countries indicated it was within 3 days of signing the contract, while one country indicated it was within 15 days of the obligation occurring. This was interpreted to also represent signing of the contract. Three countries indicated that commitments are recorded only when the PO is issued. If this is within a reasonable period of the contract being signed then this distinction will not be significant. However, it maybe an important area for clarification if substantial timing differences exist between signing contracts and issuing POs from any system. One final country, Georgia, indicated that commitments are controlled firstly within spending limits which are released quarterly.

This type of control is common, but may result in real legal and contractual obligations being greater than what is recorded in the system, as budget entities circumvent the controls by simply only partially recording the real commitments. Many government activities require certainty regarding service delivery and it is therefore normal to commit spending across the full year for some requirements, and in some cases, across two or more years. These contractual obligations must be captured and included in budget and cashflow plans if the controls are to be effective, and information on future cashflows is to be useful. However, monthly (ROSPICE) and quarterly in-year controls have a risk of being ineffective as MDAS simply commit outside the accounting system to ensure they can manage their operations effectively. In such cases real commitments maybe significantly different to what is recorded against the budget periodically.

*Figure 6 – Recording of Commitments in the System*

**Conclusions**

The respondent country concepts of commitments largely accords with the example provided in the questionnaire. However, when it comes to the recognition and recording of commitments, there is significant divergence across PEMPAL respondent countries. The timing for recording commitments provided some interesting variations in responses. Issuing a system based PO to record the commitment from the FMIS close to the time the contractual obligation is released provides strong budgetary control and can provide additional useful information for cash management. If however POs are issued some time later or only when quarterly funds are released, real commitments and information about future cashflows may be suboptimal.

It maybe useful to have further dialogue regarding the relationship between commitment controls, appropriations and in-year appropriation releases such as warrants, allotment and the ROSPICE. Developing an example of good practice to share across countries in this area may also be useful.

The question of whether POs are issued for all or some commitments would benefit from more detailed questions and responses given five countries simply answered ‘no’ and one ‘not at all’. Countries may issue POs for specific types of commitments but not all commitments, however, the structure of the questionnaire precluded these responses. Alternative but similar controls may also be in place for other types of spending, for example debt. The key point of this area of questioning was to determine whether commitments are controlled within the budget appropriations and allotments (or other in-year appropriation releases). If the recording of commitments against budget was achieved other than with a PO, then this may also reflect a useful mechanism of control. Indeed Russia made this point in some of its supplementary written responses regarding definitions. It would therefore be useful to undertake a more thorough review in this area to determine the exact nature of controls for all types of public spending.

**Stage 3 – Receipt of Goods and Services**

This stage comprises two questions.

***Q14. Does your country separately record receipt of goods and services?***

***Q15. If yes where is the receipt of goods and services recorded?***

Figure 7 summarises the country responses to these two questions. Seven countries record the receipt of goods and services. This means that five countries do not record receipt of goods and services. One country Montenegro, indicated ‘no’ to this question but then indicated that it records this in the FMIS. Receiving the goods or service represents the usual point that the supplier’s obligation under the contract has been completed. Under usual definitions for accrual accounting the liability for the government is recognised at this point. While not every PEMPAL country is moving to full accrual, this does represent an interesting point of departure for nearly 50% of the respondent countries.

Five of the seven countries that register the delivery of goods and services do so in the central FMIS. Three of the five also record this in the MDA FMIS and one, Russia, also records this in its Procurement System. A further country records this in the MDAs’ FMIS. While two further countries indicated that they record receipt of goods and services in the MDA FMIS, the supplementary written responses suggests that this is not the case, with one recording this in an MDA register, and one in regional treasury offices.

*Figure 7 – Recording receipt of goods and services*

**Conclusions**

For the seven countries that do recognise receipt of goods and services, this is largely recorded in a central FMIS. Two countries remain largely dependant on non- FMIS based controls.

Five countries indicate that they do not recognise delivery of goods and services at all, which must be a major challenge for budgetary and internal controls.

This stage of the process has particular implications for accrual accounting and the recognition of liabilities. It may be useful to further explore whether countries that have adopted full accrual or disclose liabilities in the financial statements, have been consistent in the recognition issue in accounting policies and processes for this area.

**Stage 4- Receipt of Supplier Invoices**

This stage comprises four questions.

***Q16. Does your country separately record receipt of supplier invoices?***

***Q17. If yes where is receipt of a suppliers invoice recorded?***

Figure 8 summarizes country responses to the above two questions. Seven countries indicated that they record the receipt of supplier invoices, thus five indicated they do not record this. While these numbers are consistent with responses received regarding recording good and services in Stage 3, two of the respondent countries are different. Montenegro has now indicated that it records the receipt of invoices but did not record receipt of goods and services, while Georgia has recorded the opposite.

Five countries have indicated that they record the receipt of invoices in the central FMIS and five also record this in the MDAs’ FMIS. The Kyrgyz Republic also records this at its regional treasury offices.

*Figure 8 - Registering Supplier Invoices*

***Q18. Supplier invoices are matched to commitments when received?***

***Q19. If no please explain how you verify the authenticity of the invoice.***

All seven countries that responded yes to question 16 regarding registering the receipt of supplier invoices indicated that they matched these invoices to commitments.

**Conclusions**

While seven countries are recording receipt of invoices and matching these to the original commitments, five are not. This stage along with the recording of goods and services receipt, represent important control points in government. Countries that do not record these stages would find budget control, management and reporting very challenging. Managing these processes outside either a central or MDA FMIS would also be extremely challenging.

**Stage Five – Pending Payments (Accounts Payable)**

This stage comprises five questions.

***Q20. Does your country recognise accounts payable in the budget execution process? Y/N***

***Q21.Where is the recognition of the accounts payable stage defined in your Public Financial Management Process?***

Nine countries indicated that they recognise accounts payable, while three indicated that they do not. Of the nine, five define this in the general PFM law while four define it in other legislative instruments including instructions, regulations and rule books on accounting. Two additional countries, Belarus and Moldova, responded yes to question 20 but no to recognition of the receipts of goods and services, and supplier invoices in Stage 3 and 4 of the questionnaire. Their positive response to this question appears at odds with these earlier responses.

*Figure 9 – Recognition of Accounts Payable*

***Q22. Does this definition closely align with the defintion reflected in the questionnaire?\***

***Q23. If no, what are the key differences in your country’s definition?***

Seven countries indicated that the definitions are closely aligned. One country, Belarus, indicated that accounts payable is only recognised in the Treasury once information is provided from budget managers (presumably, this would be the payment request accompanied by an invoice). Macedonia did not respond to questions 24 and 25.

***Q24 When is an accounts payable recognised?***

The questionnaire provided five options to respondent countries regarding recognition of an accounts payable (Figure 10) . This question provided a useful check on earlier responses regarding Stages 3 and 4 of the process. Two countries recognise an accounts payable when goods and services are received, which is the usual definition internationally. In government it is also common to require a correctly rendered invoice along with the receipt of goods and services, and three further countries indicated that both were required for recognition of an accounts payable. Of the remaining three countries, Krygyz Republic indicated that only the invoice was required for recognition, Albania that it was recognised only when the payment request was received from an MDA, and in Kazakhstan, only when payment was made to a supplier. In all three cases, this is inconsistent with international practice and the definition provided in the questionnaire. However, in question 23 all three countries indicated that the definition of accounts payable was similar to the one applying in their country.

*Figure 10 – When is an Accounts Payable Recognised?*

**Conclusions**

One of the reasons why TCOP undertook the survey was to gauge the conceptual differences and common points in relation to key stages in the budget execution process. Five countries have provided responses which are consistent across stages 3 to 5 of the questionnaire. However the responses received from four countries have been inconsistent across these stages, suggesting that further discussions and clarification maybe useful bilaterally or in a working group.

**Stage 6 –Payments (on the Due Date)**

This stage comprises six questions.

***Q25. Does your country have a definition of Due Date?***

***Q26. Does this definition closely align with the defintion reflected in stage 5 above? Y/N***

***Q27. If no, what are the key differences in your country’s definition?***

Figure 11 summarises the country responses regarding the concept of due date. Twelve countries responded to this question with eight indicating that the due date concept exists and four indicating that it does not exist. Of the eight positive responses, seven indicated that the concept provided in the questionnaire was similar to the concept applying in their country. One of the seven responded no to the question on definition, however, the accompanying written explanation indicated that the due date was in fact 60 days (as distinct from the example provided of 30 days). The definition provided did not define a specific timeframe, thus a due date of 60 days is entirely consistent with the defintion provided and the response has been adjusted to yes.

Russia responded no and indicated that its due date is defined in each individual contract. The defintion provided in the questionnaire establishing a standard “terms of trade” for government. The standard terms ensures certainty for both suppliers and government. It also ensures certainty for cash outflows and therefore cashflow forecasting. Defining the due date in each contract allows variations to the standard “terms of trade” to be implemented. Ideally such variations should be based around a policy regarding the cost to government of paying early, or the cost to the suppliers of paying late. Russia’s concept of due dates is therefore different to the definition provided in the questionnaire.

*Figure 11 – Due Date*

***Q28. What are your countries terms of trade or payment due date?***

The responses to question 30 from the eight countries that have due date reveal significant variations in practice and with the concept of “terms of trade” proposed in the questionnaire. Two countries, Azerbajan and Kazakhstan pay almost immediately that an invoice is received, one and three days respectively. This eliminates the holding period by government which in turn will result in cash balances being reduced and investment interest foregone. Four countries have 30 or 60 day terms which are consistent with the “terms of trade” concept defined in the questionnaire. Two countires Kyrgyz Republic and Russia, define the “terms of trade” in each contract. These responses therefore indicate that only four countries have “terms of trade” similar to that proposed in the questionnaire[[14]](#footnote-14).

*Figure 12- Government Terms of Trade*

***Q29. Can the payment due date be varied?***

***Q30. If yes indicate the reasons for the variations ?***

Figure 13 summarizes whether the government standard “terms of trade” can be varied and the reasons for accepting such variations. Eight countries responded, with six indicating that the terms of trade can be varied. Two indicated the terms may not be varied. The questionnaire suggested a number of reasons why the terms maybe varied. No countries varied the terms based on a discount from the supplier. However, this is a core principle of why a country might choose to reduce its terms of trade - because a discount is offered for early payment, and therefore represents an effective cash management decision.

All six countries that allowed variations indicated that the standard terms could be varied if the contract defined this. This has the potential to undermine the rationale behind the concept of the “terms of trade” particularly, if the variation is not linked to a discount for early payment. It is also not clear how payment terms could be improved for either Azerbaijan or Kazakhstan given the already very favourable terms of one and three days.

Insufficient funds was given as a reason for varying the terms for two countries. This would be the normal reason for delays in most countries that have liquidity issues and are cash rationing. Both Azerbaijan and Kazakhstan also indicated that MDAs have discretion to vary the Terms of Trade. Azerbaijan also indicated that the Treasury has further discretion to vary the terms.

*Figure 13- Variation of Terms of Trade*

**Conclusions**

The concepts of due date and standard terms of trade appear to be consistently applied with the defintions provided in the questionnaire in just four of the respondent countries. This is despite seven countries indicating that the country defintions closely aligned with the questionnaire. The rationale behind these concepts, which include providing certainty regarding cashflows for both government and suppliers and to maximize the cash balances of government by ensuring invoices are paid “just in time” neither early or late, do not appear to be priorities for a number of TCOP countries. This area could be a useful focus for further discussion and debate.

**Stage 7- Arrears**

This stage comprises nine questions.

***Q31. Does your country define budgetary expenditure arrears?***

***Q32. Where is the concept of arrears defined in your Public Financial Management Process?***

***Q33. Does this definition closely align with the definition reflected in stage 7 above? Y/N***

***Q34. If no, what are the key differences in your country’s definition?***

***Q35. Does your country report arrears (please indicate all of the options that apply in your country):***

Figure 14 summarizes key responses regarding the definition of arrears and reporting from twelve respondent countries. Nine countries indicate that they have a definition of budget arrears, with three not defining arrears. Of the nine, four define this in the General PFM Law, with three of the four also defining it in subordinate legislative instruments. A further five countries also indicated that arrears are defined in other legsislative instruments such as rules and instructions.

Seven of the nine countries indicate that the definiton of arrears closely aligns with that used in the questionnaire. Russia indicated it diverged from the definition but explained this was in relation to terminology rather than the concepts which are the same. Figure 13 has therefore been adjusted to reflect that eight countries have similar definitions. Georgia defines arrears as payments which are delayed until the following fiscal year. This departs from the questionnaire definition which focuses on the fact that a payment is overdue in relation to its due date which is generally defined using the standard “terms of trade”. The Georgian definition would result in a payment due early in the year and not paid until late in the year as not an arrear, while at the same time any payment due to be paid in January but recognised in December could be classified as an arrear. This would provide a very different basis for reporting than proposed in the questionnaire example.

Seven of the nine countries that recognize arrears also report arrears. Turkey also reports arrears but indicated that it has no formal definition of an arrear. Both Georgia and Macedonia define arrears but indicated that they do not report arrears.[[15]](#footnote-15) Five countries report arrears in the financial statements as accounts payable, with just Kazakhstan also reporting these in the notes to the financial statements (typically arrears would be recorded under liabilities, with a table aging the arrears included in the notes). Indeed Kazakhstan also reports arrears monthly and quarterly and therefore has the most comprehensive approach to arrears reporting of any country. Turkey also provides monthly and quarterly reports but does not report arrears in its financial statements. Four other countries also submit in-year reports, two reporting monthly and two quarterly.

*Figure 14 – Arrears Management, Definition and Reporting*

***Q36. Are suppliers entitled to compensation where payments are delayed? Y/N***

***Q37. If yes please specify the way the compensation is determined***

The responses from the twelve countries to Q36 and 37 is summarized in Figure 15. Just a third of the countries, four, compensate contractors for delayed payments. In three of the countries this is defined in the contract. In Albania it is defined in Law 48/2014 “On late payments in commerical and contractual obligations.” A summary of this law is provided in Box 2.

*Figure 15 - Government Compensation for delayed payments*

|  |
| --- |
| **Box 2 – Summary of the Albanian Law 48/2014 On late payments in commerical and contractual obligations**Article 4 "Legal actions between commercial enterprises and public authorities" In commercial legal actions where the debtor is a commercial enterprise or a public authority, the creditor is entitled to from the day after the deadline for payment, overdue benefit without the need to send information about a the debtor's delay in cases where: a) The creditor has fulfilled its obligations under the contract and the law and the debtor has not objected to the obligation; b) The creditor has not received the amount to be paid within the time, except when the delay is not responsible for the debtor. Article 5 Calculation of interest-delay 1. The base interest rate lek applicable to the calculation of interest-delay is: For the first half of the year, the interest rate on repurchase agreements and reverse repurchase (repo and reverse repo), approved by the decision of the Supervisory Council of the Bank of Albania at the last meeting of the previous year, adding eight percentage points, and for the second half, the rate adopted by the decision of the Supervisory Council of the Bank of Albania at the last meeting before 1 July of the current year, adding eight points. 2. The base interest rate for the euro applicable for the calculation of interest-delay, is: For the first half of the year, the interest rate main refinancing operations, approved by the decision of the Governing Council of the ECB at the last meeting of the previous year, plus eight percentage points, and for the second half, according to rate approved by a Council decision European Central Bank Governing last meeting before 1 July of the current year adding eight points. 3. The base interest rate for other currencies, applicable to the calculation of interest-delay is ALL reckoning interest rate, taking as course ALL of liability calculation, the course of the day that required the payment of legal delay interests. |

***Q38. Does your country currently, or in the past, have a strategy for systematically reducing budget arrears Y/N***

***Q39. If yes please provide a brief summary of this process***

Historically a number of countries, including TCOP members, had significant levels of accumulated budgetary arrears. Reducing the arrears to manageable levels and ensuring strengthened controls are institutionalized were core strategies for many of these countries. Thus question sought to identify good practice examples from countries which had managed and reduced its stock of arrears.

Eleven countries responded to this question, with six indicating that they had a strategy for systematically reducing budgetary arrears, but only four providing additional information on the strategy [[16]](#footnote-16). The four country responses are summarised in Table 3 below with Albania and Croatia proposing strategies which would provide a useful basis for further discussion.

*Table 3 – Country Processes for Reducing Budgetary Arrears*

|  |  |
| --- | --- |
| **Country** | **Brief summary of this process** |
| **Albania** | 1. Development of a database for the registration of procurement orders connected with the Public Procurement Agency (it's not allowed by law to begin the tendering process without treasury authorization of the available budget fund; it may only be a reservation against the budget, not a commitment) 2. Preparation of changes in the legal framework. 4. Reconfiguration of Albanian Government Financial Information System (AGFIS) for the control of invoices and multiyear contracts' date, to compare the scheduled contract amounts against monthly liquidity forecasting and to generate the proper reports. Since January, 2014 treasury monitor the date of original invoice, date of payment order compiled by spending units, date of registration in AGFIS by Treasury district officer and due date of the payment. VAT Reimbursements are paid by AGFIS under treasury control.  |
| **Azerbaijan** | Legal acts |
| **Croatia** | Under the Law on Rehabilitation of Public Institutions, the rehabilitation procedure is applied when the founder of public institution is not able to cover losses or fulfill its financial commitments, within the statutory deadline. The implementation of the rehabilitation procedure reduces commitments and losses of operation, and minimizes negative impacts on liquidity. According to the procedure, rehabilitation is proposed by the founder, through the ministry in charge of the public institution, based on which the government makes a formal decision on rehabilitation. After that, a rehabilitation manager and rehabilitation council is appointed. Rehabilitation council adopts a rehabilitation plan. The ministry in charge adopts the rehabilitation plan. The law sets deadlines for completing the rehabilitation procedure. Rehabilitation funding is provided from the state budget. |
| **Moldova** | The Law on Public Finance provides repayment of debt within the limits of the annual appropriations |
|  |  |

**Conclusions**

Two thirds of countries reponding to this stage of the process define and report arrears. Based on survey responses, Kazakhstan has the most comprehensive approach to reporting arrears, which may merit further discussion. The absence of reporting in four countries is however concerning, as is the lack of consistency regarding the definition of arrears across respondent countries. Only four countries incur penalties for delayed payment, which may result in a lack of incentives and consequences for poor administration in countries. The government should also be modelling good practice in relation to timely payment, particularly if it imposes fines and penalties to taxpayers for similar delays.

Albania is the only country that reported a specific law to deal with arrears (see Box 2) and to determine penalties in a clear and consistent manner. This may be a useful case study for TCOP going forward. Albania and Croatia also had clear strategies for reducing arrears. Documenting successful practices from countires with experience in arrears reduction may have benefits both for other TCOP countries and also in the broader general government sector.

**Summary of Survey Findings, Conclusions and Next Steps**

**Key Findings and Conclusions**

**Stage One – Pre-Commitment**

* There appears to be some misunderstanding regarding what is meant by pre-commitment, given six of fourteen countries indicated they do not have any formal elements in their process. Most countries should have some element of pre-commitment, as this is also part of government procurement processes;
* Even those countries that indicated they had pre-commitments generally interpreted this to be part of budget planning rather than budget execution control (there is of course a strong relationship);
* The recording of pre-commitments also varies although seven of the eight responding countries record pre-commitments in either the central FMIS or MDA FMIS. This suggests that for these countries at least, this information will be available to compare against budget allocations and for budget control purposes.

**Stage Two - Commitments**

* Most countries indicate that they have a concept of commitments that accords with the example provided in the questionnaire;
* There is significant divergence across PEMPAL respondent countries in relation to the recognition and recording of commitments.
* Only five countries are issuing POs from an FMIS where appropriations are also controlled in a timeframe close to when the contract is signed - Issuing a system based PO to record the commitment from the FMIS close to the time the contractual obligation occurs provides strong budgetary control and can provide additional useful information for cash management;
* For other countries, POs are either not issued, issued some time later, or only when quarterly funds are released. This will result in suboptimal information for budget control and cash management.

**Stage Three – Receipt of Goods and Services**

* Just five countries recognize the receipt of goods and services in a central/MDA FMIS where budget controls can be maintained. Two countries remain largely dependant on non-FMIS based controls; and
* Five countries indicate that they do not recognise delivery of goods and services at all, which must be a major challenge for budgetary and internal controls and for recognition of liabilities required under accrual accounting.

**Stage Four - Receipt of Supplier Invoices**

* Seven countries are recording the receipt of invoices and matching these to the original commitments, five are not.
* This stage along with the recording of goods and services receipt, represent important control points in government. Countries that do not record these stages would find budget control, management and reporting very challenging. Managing these processes outside either a central or MDA FMIS would also be extremely challenging.

**Stage Five - Accounts Payable in the Accounting System**

* Nine countries indicate they recognize accounts payable, thus three do not. This number exceeds the number that recorded either goods or services or that matched invoices to commitments; and
* Only five countries have provided responses which are consistent across stages three to five of the questionnaire including how an accounts payable is recognized.

**Stage Six – Due Date**

* Just four countries appear to apply the concepts of due date and standard “terms of trade” consistently with the defintions provided in the questionnaire, despite seven countries indicating that the country defintions closely aligned with the questionnaire.

**Stage Seven - Arrears**

* Two thirds of countries reponding to this stage of the process define and report arrears;
* The absence of reporting in four countries is however concerning, as is the lack of consistency regarding the definition of arrears across respondent countries; and
* Only four countries incur penalties for delayed payment, which may result in a lack of incentives and consequences for effective payment administration in countries. Governments should be modelling good practice in relation to timely payment, particularly if it imposes fines and penalties to taxpayers for similar delays.

**Summary**

While some consistent themes emerged from country responses to this survey, significant differences remains across PEMPAL countries and in comparison to good practice as defined in the questionnaire. Some of the variations will have resulted from a lack of clarity in questions. For example, the pre-commitment concept of a requisition may have gotten lost in the references to procurement, which is now often viewed as a separate control process in government. Reforms in each country have also been moving at different speeds, in terms of automation, devolution and regarding transition to either full or modified accrual accounting. Notwithstanding these differences, in some cases, country responses suggest significant gaps in basic controls and recognition, which would be required in any PFM process, including one which largely remains centralized and manual.

**Next Steps**

A key reason why TCOP undertook the survey was to gauge the conceptual differences and common points in relation to major stages in the budget execution process. The questionnaire has shown significant divergence across member countries which also suggests that further discussions and work would be warranted. This could include an expansion of the questionnaire process, or establishment of a specific working group. A number of isssues arose which could be a useful focus for such a group which are detailed below.

1. As noted above, just five countries appear to have definitions across stages 3-5 that are consistent with those from the questionnaire. Why have these differences evolved and what are the implications?
2. How does budget control interact with emerging procurement systems and controls? In recent years, procurement has evolved as a separate control activity of government, with specialist functions developed outside of the traditional budget execution control processes. This has often been accompanied by the creation of separate procurement systems. While these enhanced controls are important, the separation from budget execution maybe reducing the effectiveness of the pre-commitment stage as a tool for budget control and cash management;
3. It maybe useful to have further dialogue regarding the relationship between commitment controls, appropriations and in-year appropriation releases such as warrants, allotment and the ROSPICE. Developing an example of good practice to share across countries in this area may also be useful;
4. The question of whether POs are issued for all or some commitments would benefit from more detailed questions and responses given five countries simply answered ‘no’ and one ‘not at all’. Countries may issue POs for specific types of commitments but not all commitments, however, the structure of the questionnaire precluded these responses. Alternative but similar controls may also be in place for other types of spending, for example debt. It would therefore be useful to undertake a more thorough review in this area to determine the exact nature of controls for all types of public spending;
5. Receipt of goods and services has particularly implications for accrual accounting and the recognition of liabilities. It maybe useful to further explore whether countries that have adopted full or modified accrual and which disclose liabilities in their financial statements, have been consistent in the nature of recognition of these liabilities in accounting policies and the related processes;
6. The rationale behind the concept of “due date” and “standard terms of trade”, is to provide certainty regarding cashflows for both the government and suppliers and to maximize the cash balances of government by ensuring invoices are paid “just in time”, neither early or late. Whether these objectives are understood by all countries could be a useful focus of further discussion and debate;
7. Albania is the only country that reported a specific law to deal with arrears (see Box 2) and to determine penalties in a clear and consistent manner. This may be a useful case study for TCOP going forward;
8. Albania and Croatia also had clear strategies for reducing arrears. Documenting successful practices from countries with experience in arrears reduction may have benefits both for TCOP countries, and in the broader general government sector;
9. Kazakhstan appears to have the most comprehensive approach to reporting arrears of any country – this may also be a useful focal point for further discussion;
10. The degree of automation and integration of all of the seven stages into an FMIS may be a useful area of focus. Does the lack integration and automation impact whether a country conforms to the proposed “good practice” model or not?
11. Has the move to adopting accrual basis IPSAS in TCOP countries had a positively impact on conforming to the “good practice” model?

**Appendix A – Questionnaire**

**Stage 1 - Pre-commitment**

1. Does your country have a pre-commitment stage in the budget execution process? Y/N

*If yes please answer question 2 to 4, if no proceed to question 5.*

1. Where is the pre-commitment stage defined in your Public Financial Management Process?
	1. General Financial Law/Budget Law
	2. Procurement Law
	3. Other – please specify
2. Where are MDAs required to register pre-commitments?
	1. Central FMIS
	2. Procurement system/portal
	3. In their own FMIS
	4. In a register within the MDA
	5. Other, please specify

4. Briefly summarise what the pre-commitment stage requires in your country

**Stage 2 - Commitments**

1. Does your country have a commitment stage in the budget execution process? Y/N

*If yes please answer question 6 to 13 , if no proceed to question 14*

1. Where is the commitment stage defined in your Public Financial Management Process?
	1. General Financial Law/Budget Law
	2. Procurement Law
	3. Other – please

1. Does this definition closely align with the defintion reflected in stage 2 above? Y/N
2. If no, what are the key differences in your country’s definition?
3. Where are MDAs required to register commitments?
	1. Central FMIS
	2. Procurement system/portal
	3. In MDAs own accounting system
	4. In a register within the MDA
	5. Other please specify
4. Commitments are required for (please tick or cross as appropriate):
	1. Utilities
	2. Other goods and services
	3. Capital spending
	4. Project spending
	5. Debt Servicing
	6. Other – please specify
5. Is a purchase order issued for all commitments?
6. If yes is the purchase order issued from the same system that also controls spending against the budget and appropriations?
7. At what stage of the budget execution process are commitments recorded?
8. Signing of the contract
9. Issuing Purchase Order
10. Other

**Stage 3 - Receipt of Goods and Services**

1. Does your country separately record receipt of goods and services (see stage 3)? Y/N

*If Yes please answer question 15, if no proceed to question 16*

1. Receipt of goods and services is recorded in the:
	1. Central FMIS
	2. Procurement system/portal
	3. In MDAs own accounting system
	4. In a register within the MDA
	5. Other please specify

**Stage 4 - Receipt of Supplier Invoices**

1. Does your country separately record receipt of suppliers invoices (see stage 4)? Y/N

*If Yes please answer question 17 to 19, if no proceed to question 20*

1. Receipt of a suppliers invoice is recorded in the:
	1. Central FMIS
	2. Procurement system/portal
	3. In MDAs own accounting system
	4. In a register within the MDA
	5. Other please specify
2. Supplier invoices are matched to commitments when received Y/N
3. If no please explain how you verify the authenticity of the invoice.

**Stage 5 - Accounts Payable in the Accounting System**

1. Does your country recognise accounts payable in the budget execution process? Y/N

*If Yes please answer question 21 to 26, if no proceed to question 27*

1. Where is the recognition of accounts payable stage defined in your Public Financial Management Process?
	1. General Financial Law/Budget Law
	2. Procurement Law
	3. Other – please

1. Does this definition closely align with the defintion reflected in stage 3-4 above? Y/N
2. If no, what are the key differences in your country’s definition?
3. An accounts payable is recognised when:
	1. Goods and services are received
	2. A correctly rendered invoice is received
	3. Both (a) and (b) above
	4. When a payment request is received from an MDA
	5. When payment is made to the supplier
	6. Other, please specify
4. Accounts payable is recorded in the:
	1. Central FMIS
	2. Procurement system/portal
	3. In MDAs own accounting system
	4. In a register within the MDA
	5. Other please specify

**Stage 6 - Due Date**

1. Does your country have a definition of Due Date? Yes/No

*If Yes please answer question 28 to 31, if no proceed to question 32*

1. Does this definition closely align with the defintion reflected in stage 5 above? Y/N
2. If no, what are the key differences in your country’s definition?
3. What are your countries terms of trade or payment due date?
	1. 15 days
	2. 30 Days
	3. Other please specify
4. Can the payment due date be varied? Yes/ No
5. If yes the reasons for variation are:
	1. Discount from supplier Y/N
	2. Defined in the contract Y/N
	3. Insufficient funds Y/N
	4. At discretion of MDA Y/N
	5. At discretion of Treasury Y/N
	6. Other please specify

**Stage 7 - Arrears**

1. Does your country define budgetary expenditure arrears? Yes/No
2. Where are arrears defined in your Public Financial Management Process?
	1. General Financial Law/Budget Law
	2. Procurement Law
	3. Other – please
3. Does this definition closely align with the defintion reflected in stage 7 above? Y/N
4. If no, what are the key differences in your country’s definition?
5. Does your country report arrears (please indicate all of the options that apply in your country):
	1. On the financial statements as accounts payable
	2. In the notes to financial statements as accounts payable
	3. Quarterly reports on budget execution
	4. Monthly Reports on budget execution
	5. We do not report arrears
	6. Other please specify
6. Are suppliers entitled to compensation where payments are delayed? Y/N
7. If yes please specify the way the compensation is determined
8. Does your country currently, or in the past, have a strategy for systematically reducing budget arrears Y/N
9. If yes please provide a brief summary of this process
1. Albania, Azerbaijan, Belarus, Croatia, Georgia, Kazakhstan, Kyrgyzstan, Montenegro, Moldova, Russian Federation, Tajikistan, Turkey, Ukraine [↑](#footnote-ref-1)
2. Link to online version of the survey - BCS -  [English - <https://ru.surveymonkey.com/r/JD7JTQT>; Russian - <https://ru.surveymonkey.com/r/SS7858H> ;https://ru.surveymonkey.com/r/23YX6VWS](https://www.surveymonkey.com/s/VL88C6S) [↑](#footnote-ref-2)
3. Albania, Azerbaijan, Belarus, Croatia, Georgia, Kazakhstan, Kyrgyz Republic, Macedonia, Moldova, Montenegro, Russia, Tajikistan, Turkey, and Ukraine. [↑](#footnote-ref-3)
4. The “good practice” is based on common practice in OECD countries such as Australia, which typically include an integrated control framework within an IFMIS. Similar process flows can also be seen in the Treasury Reference Model, jointly published by the World Bank and the IMF. [↑](#footnote-ref-4)
5. An alternative option where systems are not fully automated is to ensure that the majority, not all expenditures, are controlled through commitments and this can be achieved by requiring commitment for all contracts or planned spending on capital and goods and services above a certain threshold. The principle here is that most (90%) of the value of all spending on goods and services and capital will be recorded by capturing just the top 10% of all payments [↑](#footnote-ref-5)
6. Not all payments require commitments, however, allowing direct payments without commitments for goods and services and capital spending will undermine the integrity of the commitment control framework, and can also reduce the effectiveness of this stage for cash management and forecasting [↑](#footnote-ref-6)
7. a small percentage difference may be allowed without further approval in some circumstances [↑](#footnote-ref-7)
8. 30 days is a common period used by governments, however, it is an example only, and could be determined by the country based on usual periods of payment [↑](#footnote-ref-8)
9. Modern treasuries using automated FMIS are in a strong position to actively manage liquidity ensuring that cash is available “just in time” to make budget payments each day. This generally involves strong forecasting of cashflows and active cash management, including smoothing cash flows and using instrument such as treasury securities to fund any shortfalls. This is preferred to cash rationing which effectively delays payments to suppliers, and represents a forced borrowing from these suppliers. [↑](#footnote-ref-9)
10. Question one in the actual survey sought details on the survey respondent and has therefore been excluded in this summary report [↑](#footnote-ref-10)
11. There is a definitional issue in that the response from Croatia refers to contingent liabilities. Pre-commitments are not contingent liabilities nor liabilities but a form of budget control and management [↑](#footnote-ref-11)
12. Predictable recurrent spending such as salaries and pensions should be included in cashflow plans but would normally not be subject to commitment controls. However, irregular or one off payments in these areas must also be included in any plans. [↑](#footnote-ref-12)
13. The one country Macedonia, may warrant further discussion regarding responses. Macedonia originally implemented commitment controls in 2003 in the same system that controlled expenditures. PEMPAL understands that the same system operates today, suggesting that this response should be yes. [↑](#footnote-ref-13)
14. There is an argument that payment within one or three days also represents government “terms of trade” or due date. However this ignores the cost to government of such short due date. It also places countries in a more challenging position regarding arrears, if these are defined to be any payment not made by the due date. [↑](#footnote-ref-14)
15. This appears to be at odds with recent discussions with Macedonia regarding problems with a growing level of budgetary arrears. [↑](#footnote-ref-15)
16. Many other countries will have undertaken a specific process for reducing arrears in the past, for example Macedonia in 2003/04, however, respondents to the survey may not be familiar with the strategy [↑](#footnote-ref-16)