

PEMPAL

The Role of Treasury in Modern PFM Practices

Treasury Community of Practice

Kiev, Ukraine

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Coverage of presentation

1. Traditional Role of the Treasury
2. OECD Trends in Treasury
3. Transaction Processing systems
4. International Examples

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Rationale for a Traditional Centralized Control Model

- **Budget execution is still focussed on line-item budgeting**
- **Legislative framework prescriptive** – focus on detail rather than principles, limited attention to the responsibility of managers to manage
 - The law may even make the Treasury accountable for payment decisions, or at least be unclear as to who is responsible
- **Internal controls in MDAs and the internal audit function are underdeveloped**
 - Treasury checks that the correct codes are used and signatures are present on forms!
Who ensures that expenditure was a good use of public money?
 - Belief that central control is a deterrent
But without strong decentralized accountability, people find ways to get around controls
- **Information technology may not be integrated – no FMIS**

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Devolution of Decision Making

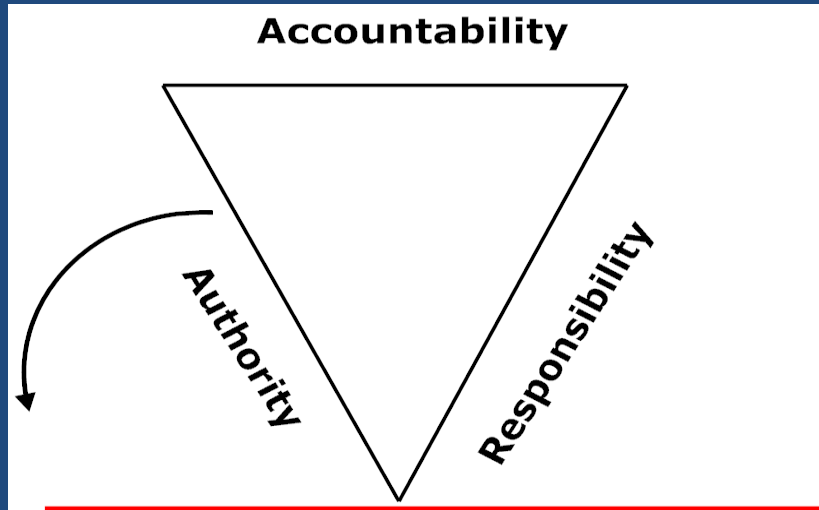
A major trend in many OECD countries in the 80's and Beyond

- **Shift in decision making and accountability from the centre to budget entities** – balance of authority and responsibility
- Needs a **strong principle-based legislative framework**, which incorporates the concept of public internal financial control
- Specific legislative requirements of the **financial actors and their role in the budget execution process** (PIFC.COSO)
- **Strong internal audit** is important, as is a strong external review functional with parliamentary support and scrutiny
- A focus on better decision making – hence the shift from just **inputs to results**
- Ensure that the process is properly planned, that the approval is made up front, and **controlled within the FMIS** - each step is therefore reviewable

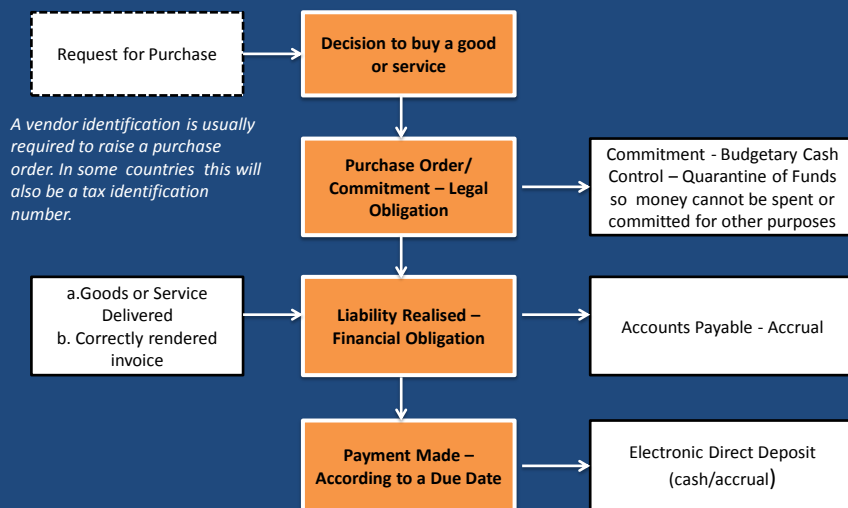
Thus in general, the trend has been that responsibility for controls is also devolved along with the authority, with ex-post review replacing the ex-ante checks!

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Enhancing accountability and the need to balance authority and responsibility for effective devolution



Budget Execution – Linking each stage of the Payment Process for Accountability and Control



The benefits of an FMIS for control

- All steps in the process are recorded electronically
- Controls in the system are more effective than manual controls:
 - requisition;
 - purchase order limited by funds control (Korean model);
 - goods and services receipt;
 - due date;
 - accounts payable;
 - payment – ideally electronic payment made through RTGS or similar payment system)

All of the above controlled through a GL and CoA and is easily auditable!

- *In Australia, ministry FMISs were certified as meeting certain standards which allowed the reduced checking of payments - 45(a)3(b) certificate*

This is because there are now system-based controls and risks

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Transaction Processing Systems

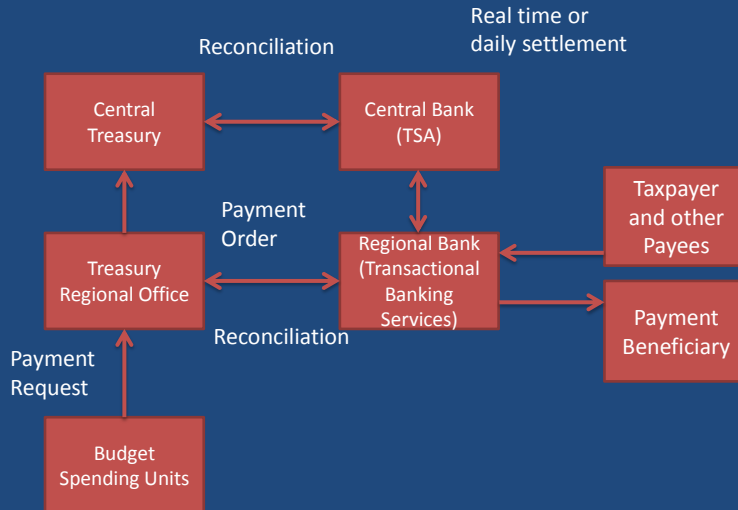
Centralized transaction processing system

- Concentration of authority at the Treasury to process cash transactions and operate the TSA, including regional treasury sub-accounts. Only the Treasury operates the TSA main account and transaction accounts. A centralized treasury may also have branches (e.g. regional or local treasuries). There could be separate transaction accounts for each regional treasury unit and/or individual budget institution
- The Treasury, supplemented in some countries by a network of regional treasuries, provides payment services for spending agencies
- Payment requests are prepared by individual budget agencies and sent to a centralized Treasury for control and execution (payment)
- Treasury manages the float of outstanding invoices

May lead to continued controls centrally, despite improvements in accountability through automation of the transaction process

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Centralized Transaction Processing System



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Transaction Processing Systems

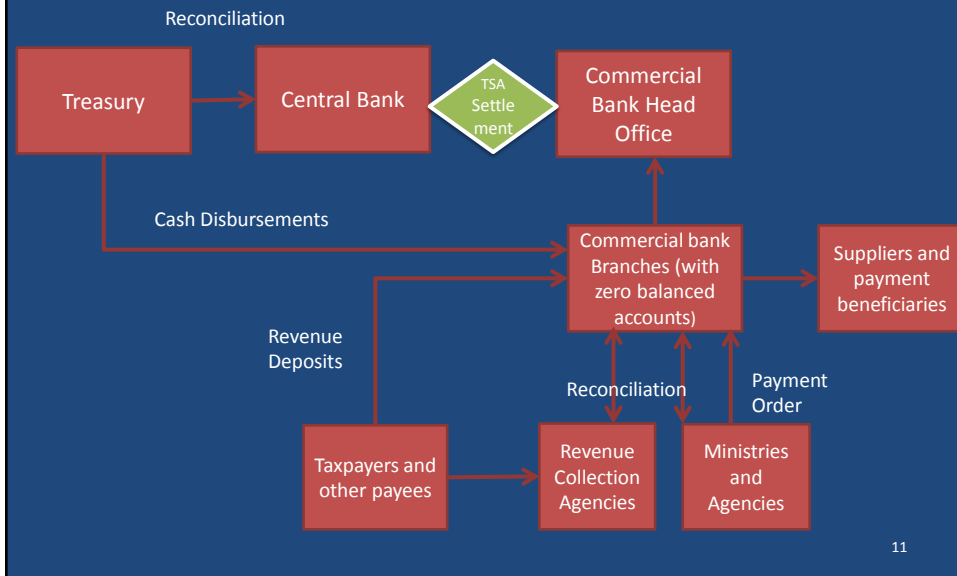
Decentralized transaction processing system

- Each spending unit processes its own transactions and directly operates the respective bank account (zero balanced) under the TSA system
- Each spending unit processes and makes payments directly to suppliers and accounts for these transactions through a TSA system
- Ministry of Finance sets the cash disbursement limits (monthly or quarterly) for control purposes (usually based on unit of appropriation – programs and in some cases economic, etc.)
- A decentralized system requires adequate commercial banking infrastructure, and linkage of central and ministry accounting systems

There is no opportunity for continued control centrally, as the core functions that remain centrally are simply cash management and receipt of reports for analysis and consolidation

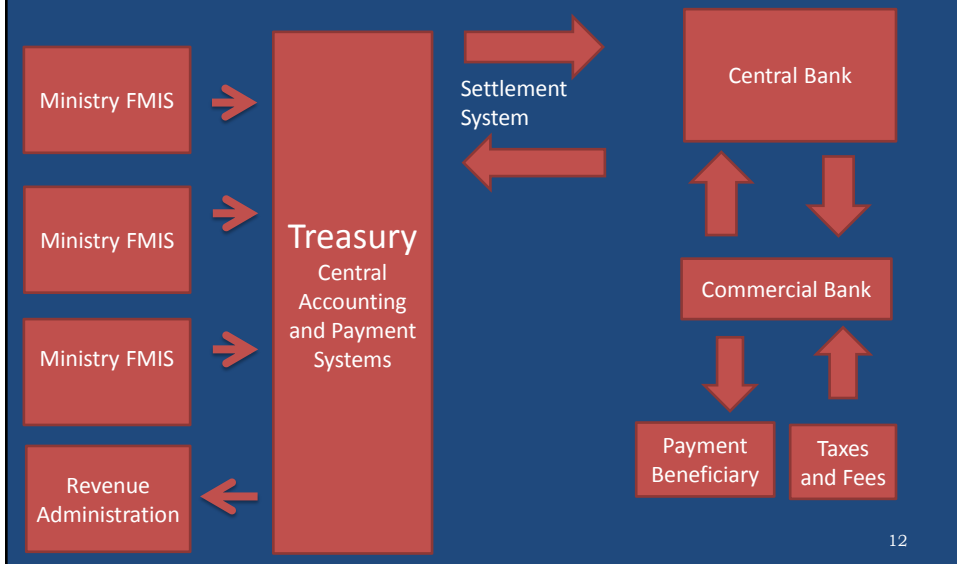
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Decentralized Transaction Processing System



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Options for Transaction Processing *The Hybrid Model in Mexico*



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International Examples - Transaction Processing Systems

- Australia - *Transitional arrangements – 1980 through 2000 from centralized to decentralized transaction processing*
- Mexico – risk-based sampling
- Dominica - *Transactions below a certain value fully processed by budget entity; above the threshold, approved in the Treasury*
- France and Belgium - *Recent changes*

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Preconditions for Decentralized Controls

- **Increased accountability** – legislative responsibility for internal control lies with the Ministry
- **Enforcement** – accountability means carrots and sticks
- **Gradual shift from input control to results** – ensuring managers manage and not just spend!
- **Strong information technology (FMIS)** predominantly shifts internal controls into the system

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