

# Public Financial Management: A Whole System Approach

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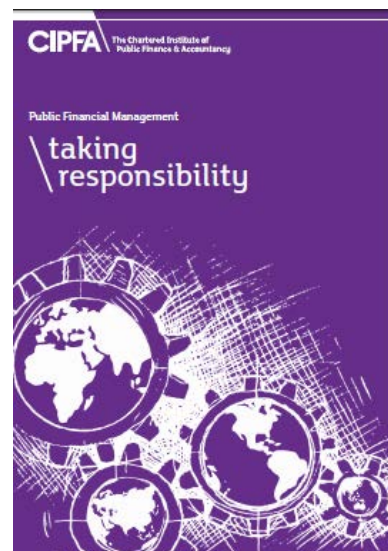
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## Session outline

- Why strong PFM is essential
- PFM 'Whole System Approach' (WSA):
  - Introduction
  - Overview
- Accrual as the foundation
- Strengthening PFM:
  - Standards – role of IPSASs
  - Processes / controls
  - Learning and Growing

# CIPFA – A catalyst within the Profession



‘Making a step-change in government accounting and auditing is completely within leaders’ control. The on-going crisis screams out for urgent concerted global action.’

**Rob Whiteman**

CIPFA Chief Executive

## Why strong PFM is essential

- Government depends on trust
- Poor Public Financial Management:
  - Allows waste
  - Encourages corruption
  - Reduces ability to collect taxes
  - Adverse impact on services
- Government expenditure typically 30%-40% GDP
- Poor PFM impacts on rest of economy and investor perceptions

## Why strong PFM is essential (2)



or

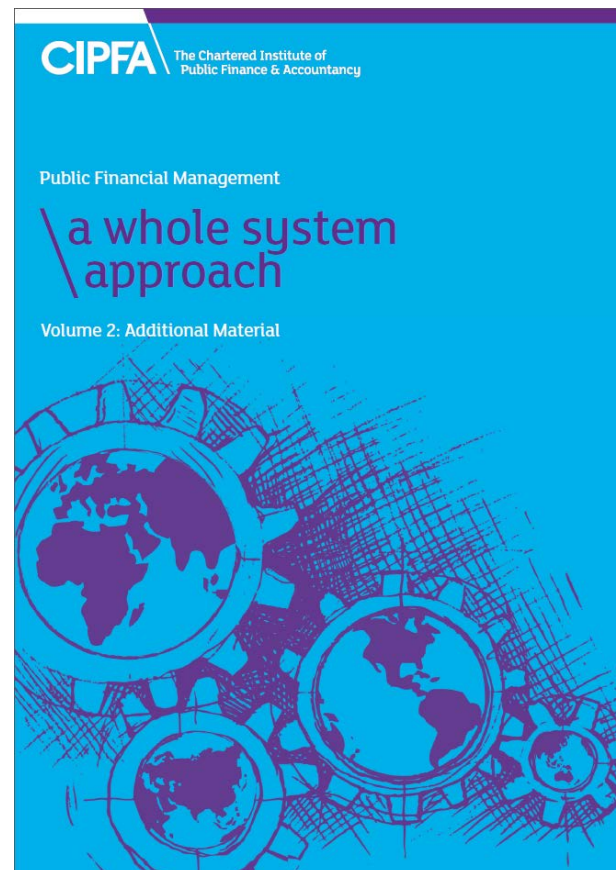
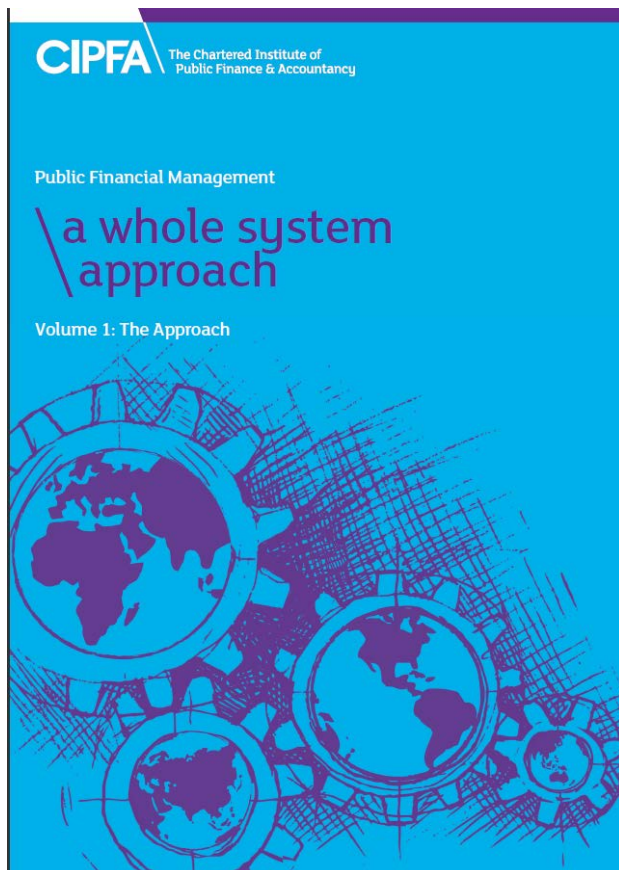


‘Whole system’ approach crucial to strong PFM

## PFM Definition

‘The system by which the financial resources are planned, directed and controlled to enable and influence the efficient and effective delivery of public service goals’

- better decisions
- better value for money
- better outcomes for:
  - Service recipients
  - Citizens
  - Economy as whole



## What is the 'Whole System Approach'?

- Framework supporting development of effective PFM at country, region/sector and entity levels
- Holistic model complementing existing assessment tools
- Recognises the interconnectedness of key players
- Emphasises need for improvement across the system – no one initiative on its own is sufficient
- Supports need for citizen involvement, accountability parliamentary scrutiny and absence of corruption
- Recognises there are checks and balances in every system – key is to act together to make PFM effective

The whole is more than the sum of the parts

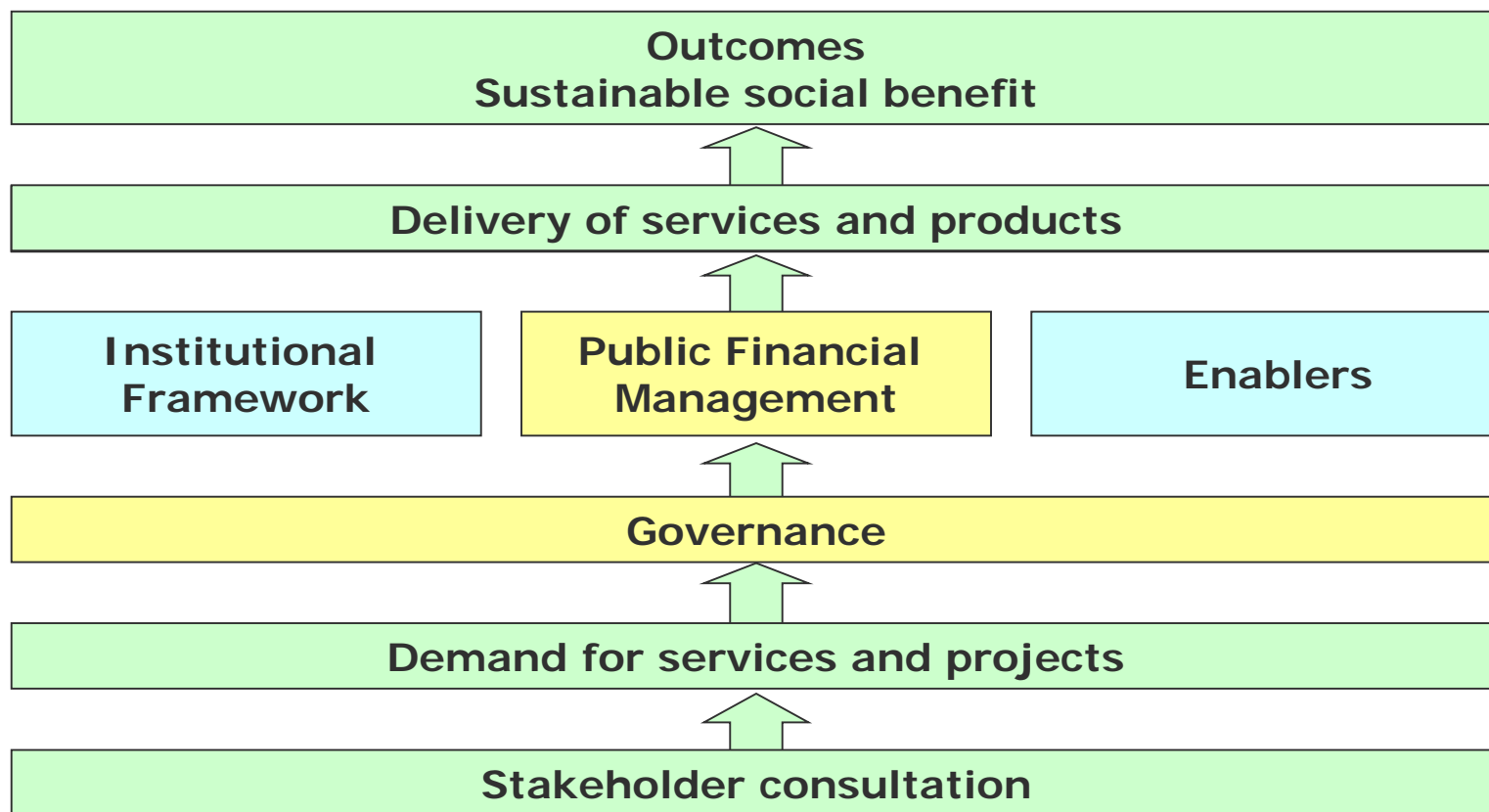


## Who is strong PFM important for?

- Governments and their advisors
- Ministries of Finance in countries focused on PFM reform
- PFM professionals – who design, implement, operate, review, evaluate PFM
- Professional Accountancy Organisations (PAOs)
- Supreme Audit Institutions (SAI)s
- Donors and financial markets
- **PFM and good governance are inseparable**

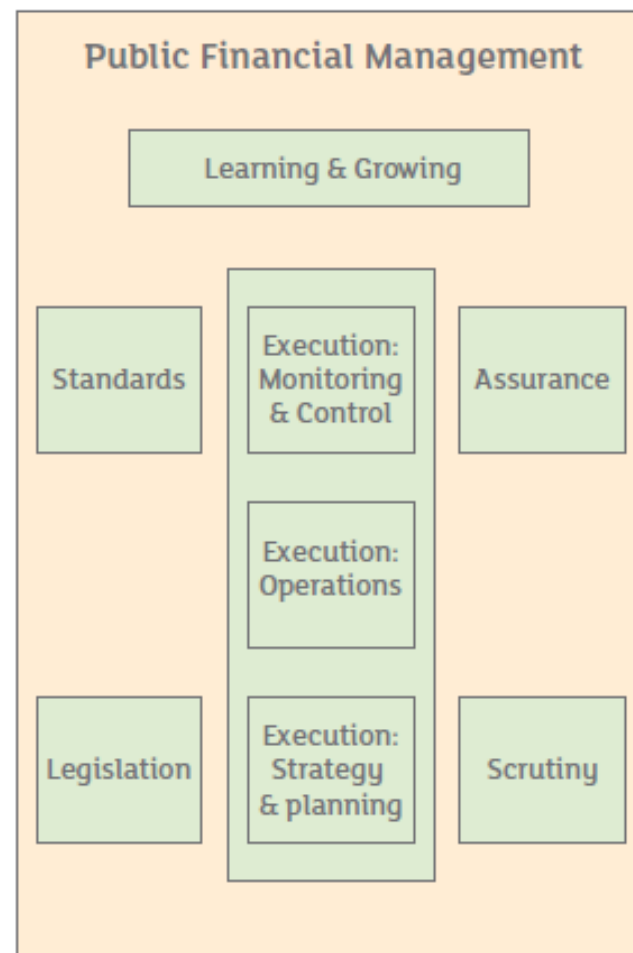
All countries whatever their state of development

## PFM as part of Good Governance



## Strong PFM: WSA - Key elements

- Legislation
- Standards & Codes
- Execution:
  - Strategy & planning
  - Operations
  - Monitoring & Control
- Scrutiny
- Assurance
- Learning & Growing



Accrual-based information as the foundation.....

# Ghana's public finances: How much do you really know about...?

Past



or



Present



or



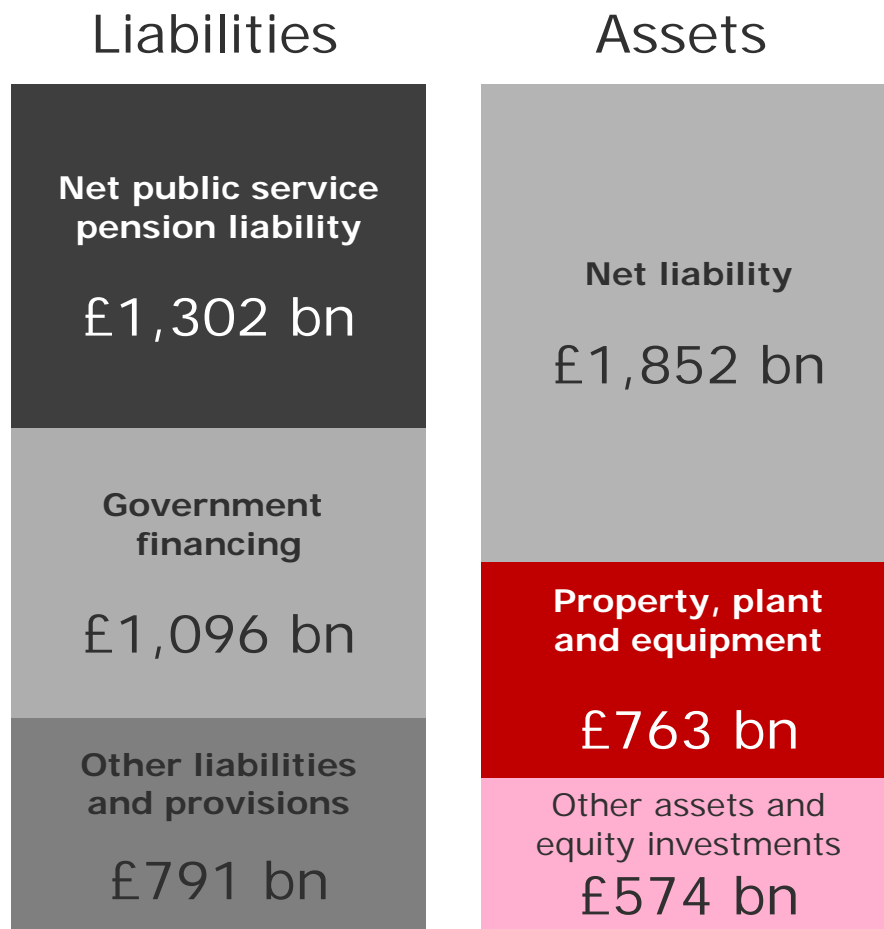
Future



or



# Accrual- based information – the bigger picture: UK WGA 2014 balance sheet



## UK WGA – the bigger picture (1): Reconciliation to public sector net debt

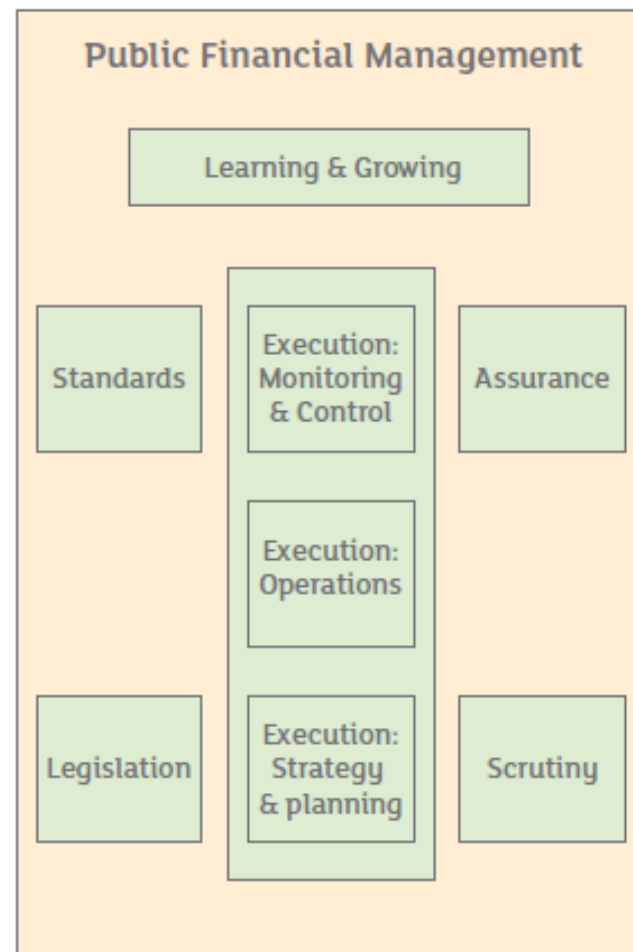
	2013-14	2012-13
	£bn	£bn
<b>Net liabilities</b>	<b>1,852</b>	<b>1,630</b>
Net public service pensions liability	(1,302)	(1,172)
Provisions	(142)	(131)
PFI contracts	(33)	(32)
Unamortised premium or discount on gilts	(29)	(31)
Tangible and intangible fixed assets	763	747
UK Asset Resolution (UKAR) net impact on net debt	74	83
Payables and receivables	33	29
Investments	23	27
Network Rail	34	34
Asset Purchase Facility	45	44
Other	84	71
<b>Public sector net debt (National Accounts)</b>	<b>1,402</b>	<b>1,299</b>

## UK WGA – the bigger picture (2): Reconciliation of current deficit

	2013-14	2012-13
	£bn	£bn
<b>Net deficit for year (WGA)</b>	<b>149</b>	<b>179</b>
Public service pensions	(49)	(48)
Depreciation and Impairment of assets	(18)	(16)
Capital grants	(11)	(12)
Provisions	(10)	(16)
Net gains/losses on sale of assets	4	(3)
Other	8	-
<b>Current deficit (National Accounts)</b>	<b>73</b>	<b>84</b>

# Strengthening PFM (1): WSA – Key elements

- Legislation
- Standards & Codes
- Execution:
  - Strategy & planning
  - Operations
  - Monitoring & Control
- Scrutiny
- Assurance
- Learning & Growing





## Strengthening PFM (2): Standards IPSAS – based financial reporting

### **Enhanced financial credibility**

- Only internationally-recognised financial reporting standards for public sector
- Set by independent international board of public sector finance experts
- Based on private sector IFRS where appropriate
- Specifically addressing key public sector issues

### **Transparency and trust**

- Legislature and electorate
- Financial markets

### **Credibility demands comparability**

## Strengthening PFM (3): Standards IPSASs: Realising full potential benefits

- IPSAS-based financial reporting can only take you so far.....
- Improved public expenditure control requires accrual budgeting too:
  - Better asset management
  - Improved liability and risk management
  - Full economic impact of decisions - fewer surprises
- At a Whole of Government level, accrual budgeting and reporting:
  - Creates space for fiscal choices
  - Earlier warning of longer term fiscal trends
  - Enhanced financial credibility – lower borrowing costs

## Strengthening PFM (4): CIPFA FM Model

### How good is PFM in your organisation?

	Securing Stewardship	Supporting Performance	Enabling Transformation
Leadership	L1, L2	L3 - L5	L6, L7
People	P1, P2	P3, P4	P5, P6
Processes	PR 1 - PR10	PR11 - PR14	PR15, PR16
Stakeholders	S1 – S3	S4 - S6	S7, S8



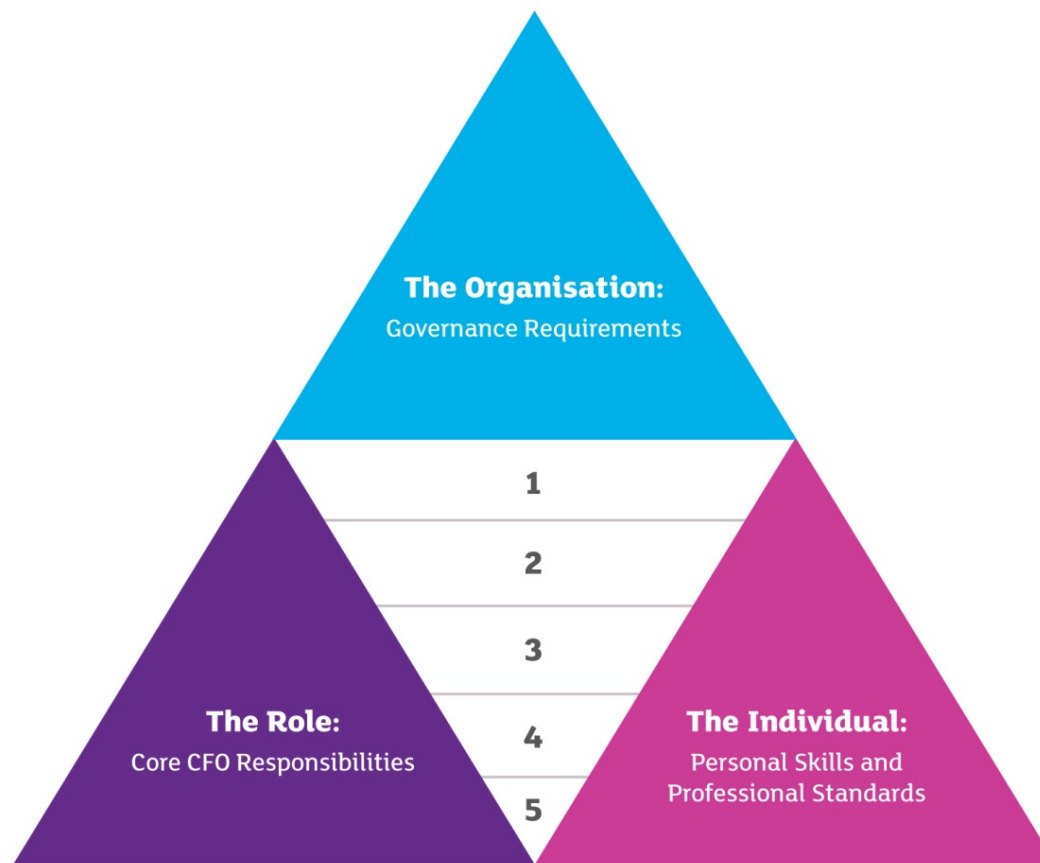
## Strengthening PFM (5): CIPFA FM Model

### How good is PFM in your organisation?

- Strong PFM as corporate responsibility
- Is financial management where we want it to be?
- Identifies priority areas for improvement
- Allows tracking over time
- Can be used to benchmark between organisations
- Can test organisational leaders skills in financial management



# Strengthening PFM (6): Role of CFO – Creating the vision



# Strengthening PFM (7): CIPFA Role of CFO Statement

## The CFO in a public service organisations:

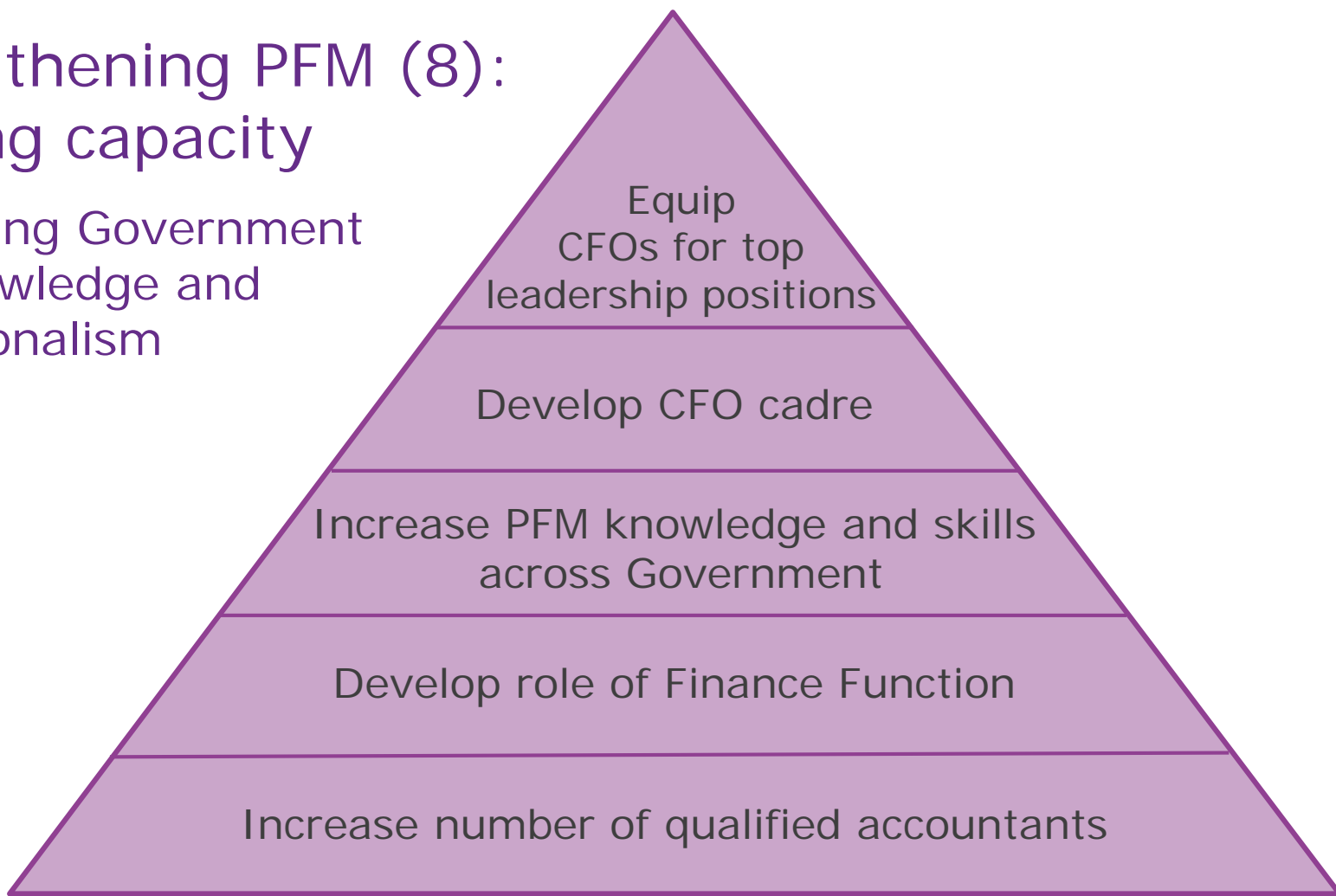
1. is a **key member of the Leadership Team**, helping it to develop and implement strategy and to resource and deliver the organisation's strategic objectives sustainably and in the public interest;
2. must be **actively involved in**, and able to bring influence to bear on, **all material business decisions** to ensure immediate and longer term implications, opportunities and risks are fully considered, and alignment with the organisation's overall financial strategy; and
3. must **lead the promotion and delivery** by the **whole organisation** of **good financial management** so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively.

## To deliver these responsibilities the Chief Financial Officer:

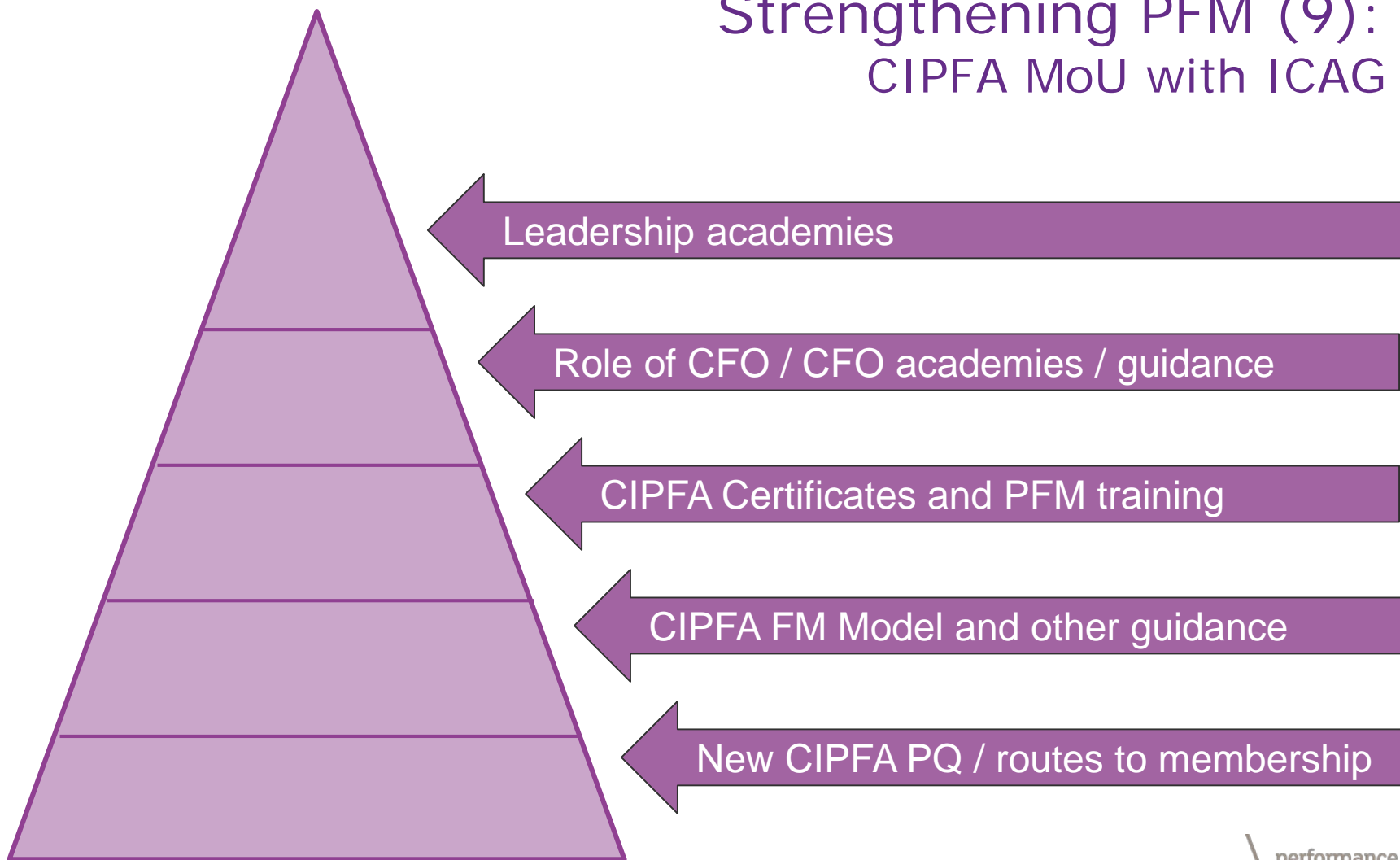
4. must lead and direct a finance function that is resourced to be fit for purpose; and
5. must be professionally qualified and suitably experienced.

## Strengthening PFM (8): Building capacity

Developing Government  
PFM knowledge and  
professionalism



## Strengthening PFM (9): CIPFA MoU with ICAG





## PFM Whole System Approach: Conclusions

- ✓ Strong PFM is essential
- ✓ Reforms will fail without a 'Whole System Approach'
- ✓ Tailored approaches to suit local circumstances vital
- ✓ Accrual-based information as foundation for strong PFM
- ✓ IPSASs-based reporting – credibility and comparability
- ✓ Accrual essential to improving public expenditure control
- ✓ Capacity development fundamental

➤ **CIPFA and ICAG can help.....**

# Questions and discussion



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