



**1<sup>st</sup> COMMUNIQUE  
OF 2<sup>nd</sup> PEM PAL COMMUNITY OF PRACTICE PLENARY MEETING  
January 26-28, 2011, Hotel Sheraton, Zagreb - Croatia**

**BACKGROUND**

On January 26-28, 2011 representatives of Europe and Central Asia (ECA) region countries: Albania, Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Georgia, Kazakhstan, Kosovo, Kyrgyz Republic, Macedonia, Moldova, Montenegro, Romania, Russian Federation, Serbia, Tajikistan, Turkey, Ukraine and Uzbekistan met in Zagreb for a Plenary Meeting to discuss issues related to **managerial accountability in budget execution**. The meeting was hosted by the Ministry of Finance of Croatia.

Experts in Public Financial Management (PFM) presented reforms from Netherlands, Croatia, United Kingdom, Slovenia, and South Africa, which were discussed among practitioners of government budget, treasury and internal audit units working within the ECA region. Very fruitful discussions regarding these reforms and how they were, and could be, applied within the 21 above mentioned countries were held. Clear conclusions were made related to treasury systems, budget rules, program budgeting, and the internal audit function. Given that countries are at different stages of reform, conclusions have been condensed and chosen on the basis of their broadest applicability.

**CONCLUSIONS**

As member countries of the PEM PAL network, we conclude the following:

1. Program budgeting presents budget information in a way that clearly links budget resources to the policy outcomes that a Government wants to achieve. Program budgeting is a process undertaken during the budget formulation stage that allocates resources to specified objectives and/or results expected to be achieved from those resources. However, the monitoring of expenditures against these programs often proves to be difficult. Aligning organizational structure to program structure is an option which enables effective budget execution through a Government's Financial Management Information System. Such reforms, however, will only work if there is managerial accountability.

2. Managerial accountability requires a clear assignment of delegation of tasks, responsibilities and authority to managers of spending units. To facilitate such reforms it is acknowledged that:
  - a. Appropriate legislation should be developed which clearly allows Ministers or Heads of Organizations to delegate activities to different levels of public administration, whilst retaining overall responsibility.
  - b. Budget planning and execution should be delegated to managers, who themselves should be given authority and flexibility to make resource decisions (within limits) to achieve specified results. However, key control points on total spending, personnel spending, and capital spending should remain, in addition to any other specific limits adopted by a country's cabinet or parliament.
  - c. Budget rules should allow for more discretion if approved standards of reporting, control and performance have been established. While budget rules are necessary in some cases (especially to improve strategic use of resources), they should not limit managerial accountability. The PEM PAL support team could assist in identifying such minimal line ministry standards that, once met, might indicate that a ministry could fulfill responsibilities under increased delegation of authority.
  - d. Under managerial accountability, spending unit managers are held accountable for financial and non-financial performance. Performance information should be developed and based on management and citizen needs. Improved budget reporting formats and templates will lead to higher quality decision making but they should also take into account varying needs and expectations of different audiences (e.g., line ministry, MoF, Parliament, citizens).
3. Internal audit function should be introduced in those countries which do not have one currently. Both auditors and managers need greater awareness of the concepts of internal audit and the traditional financial inspection function. Financial inspection will still have an important, but different, role after the implementation of an internal audit function. If properly organized, internal audit enhances the capability of managers to be accountable. Further, it is an important function which can be used to assist managers in effectively undertaking their responsibilities.
4. Budget planning, execution and monitoring processes, timeframes and responsibilities should be clearly identified and documented. This will be an important feature in the development of audit trails.
5. There should be an appropriate follow-up of internal audit recommendations. Management is responsible for assuring either a formal response to recommendations, or that remedial actions are taken. Internal audit offices

should monitor and track the status of prior recommendations, and report to management at least annually on the degree of corrective action taken.

6. PFM reforms that are introduced within a country should be appropriately sequenced and designed for the country's context and its existing capacities, and be supported by accompanying managerial reforms. Where required, capacities in management and PFM should be improved through: a) targeted training; b) the definition of competency standards; and c) strategies developed to attract and retain managers and PFM specialists in MoFs, line ministries and local governments.

## **FUTURE ACTIONS FOR PEM PAL**

1. The PEM PAL support team will develop a comprehensive glossary of translated PFM terminology. This glossary should be presented to the PEM PAL Communities of Practice for comment and will then be posted on the PEM PAL website. This should help to improve the understanding of technical terminology which until now has not existed in some of the local languages and has led to confusion among practitioners.
2. The PEM PAL support team will provide a range of international examples and case studies of a) program budgeting, and b) managerial accountability to assist countries in implementing these reforms. These examples should give a range from countries just beginning the reforms to those well advanced in reform implementation.
3. The PEM PAL support team will continue to provide assistance through providing common frameworks, standards, and clear definitions of roles and responsibilities in all aspects of budget, treasury, and internal audit functions.
4. The PEM PAL support team will provide a summary of progress made in PFM reforms over the course of the past five years of PEM PAL, using PEFA, PIFC and other data sources, including lessons of success or lack of progress for the next plenary meeting.

**Zagreb, January 28, 2011**

**Signatures**



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Mr Maksim Yermalovich  
Belarus  
**Budget Community of Practice**

Ms Anila Çili  
Albania  
**Treasury Community of Practice**

Mr Tomislav Mičetić  
Croatia  
**Internal Audit Community of Practice**