



PEMPAL Member Country Survey on Expenditure Controls

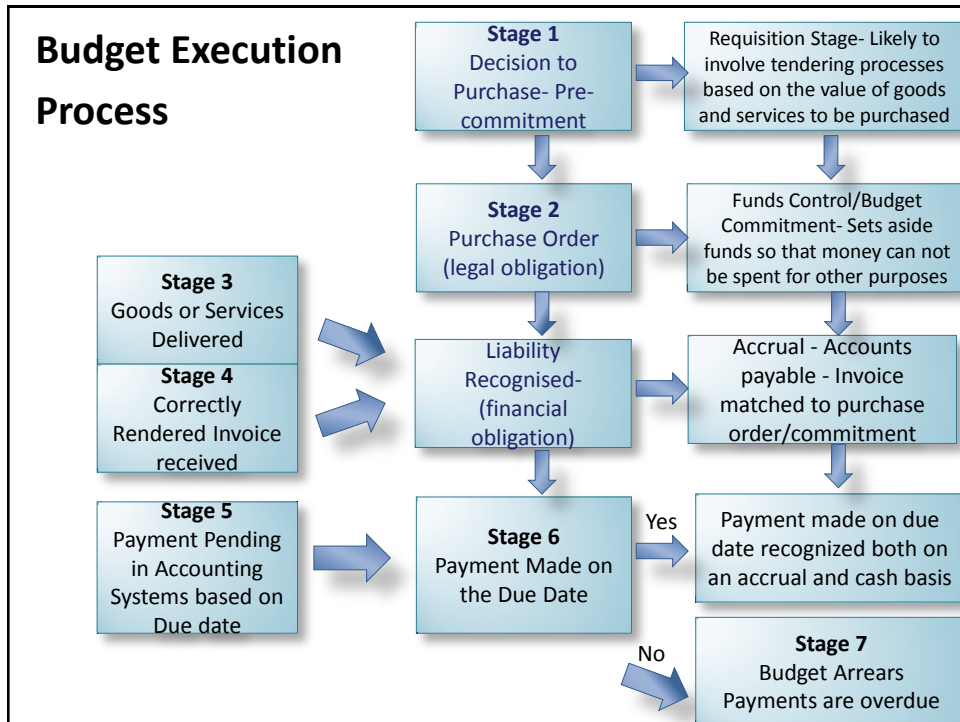
Tirana Albania

May 2015



Background

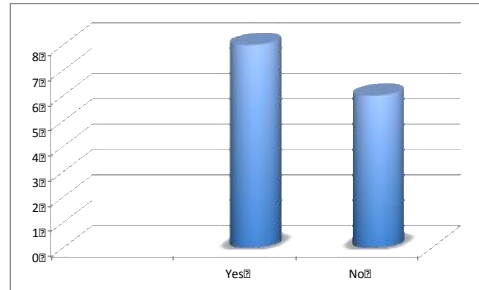
- Commitment, accounts payable and arrears controls are Fundamental to effective cash management and budget execution control
- Discussions at previous PEMPAL events and internationally indicates that these concepts are understood differently in countries.
- This presentation will focus on the “generally accepted definitions” and benchmark PEMPAL practices against those definitions
- 14 countries responded to the survey, although 2 countries responses were not complete



Stage 1 - Pre-commitment/requisition

- At this stage the decision to purchase goods or services is made
- This may also involve the tendering process
- 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.

Does your Country have a pre-commitment stage?



Where is the Pre-commitment Stage defined?

- Budget Law (4);
- Procurement Law (5);
- Elsewhere (5)

Where are pre-commitments recorded?

- Central FMIS(6);
- MDA FMIS (3);
- Procurement System (4);
- Registers in MDAs (2)

Stage 2 - Commitments

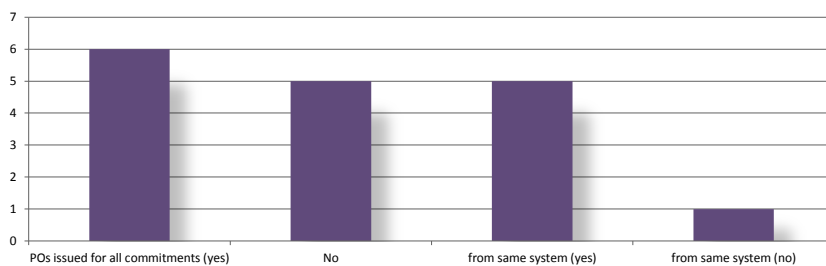
Step 2 – Recording of commitments for all contracts at the time the contract is agreed with a supplier.

This ensures :

- funds are set aside to pay the supplier
- 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 ensures that suppliers have a guarantee from the Treasury
- 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

Commitment Controls

- 12 of 14 countries that responded to the survey indicated that they had commitment controls
- 10 countries indicated that the given definition of commitments aligned with their country practice. The two remaining countries answered 'no', however, the additional explanations provided indicated a strong concurrence
- 11 countries responded to the question on the types of spending subjected to commitments. All 11 record commitments for utilities, goods and services, projects and capital spending. Four also have commitments for debt
- 6 of the 11 countries issue a PO for commitments. Of the six, five issue it from the same system that controls appropriations and the budget.



When are Commitments Recorded?



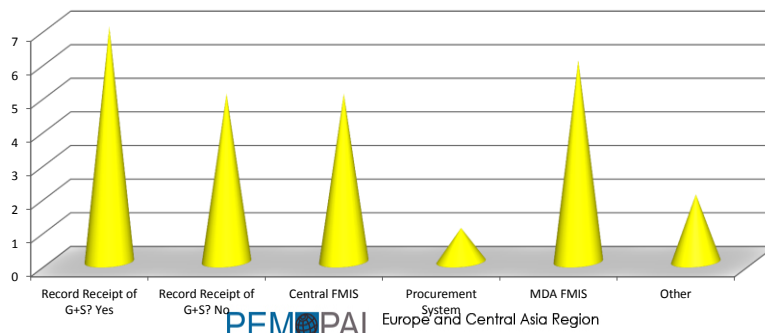
- Good practice is to record the commitment when the contract is agreed – this is the legal obligation
- Three countries record commitments between 3 and 15 days of the contract being entered into.
- One country indicated that commitments are linked to appropriations
- One country indicated that commitments are recorded only after payment



Stage 3- Receipt of Goods and Services

This is the point at which an accounts payable (accrual) is usually recognized under international (accounting) conventions

- 7 of 12 countries record receipt of goods and services
- Of these 7 countries, 5 record it in the central FMIS, one in the procurement system, six in a line ministry FMIS, one in books of line ministry and one in the regional treasury



Stage 4 – Matching Invoice to Commitment

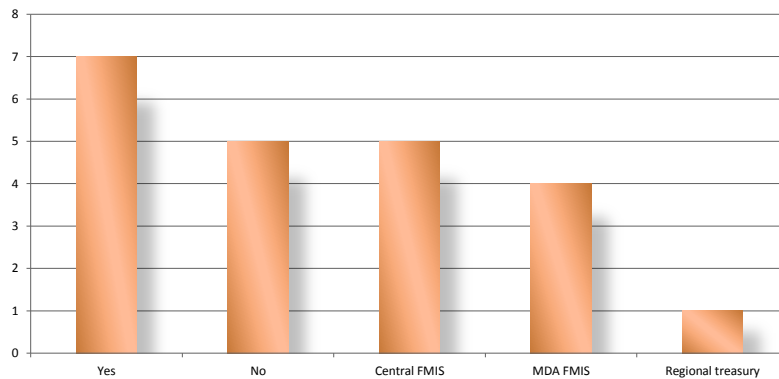
In addition to Step 3 many governments require the receipt of a correctly rendered invoice before recognizing the accounts payable.

- This is useful additional level of control imposed by governments.
- In general, suppliers will submit invoices at the same time goods and services are delivered, thus recognizing receipt of goods and services and matching the invoice to the system generated purchase order may occur largely at the same time.
- 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 should require further approval before being accepted for payment.

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Stage 4 – Matching Invoices to Commitments

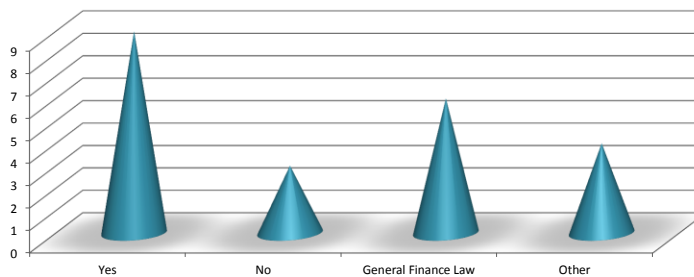
- 7 countries match invoices to commitments, 5 do not. Of the 7 5 do this in the central FMIS, four in the MDA FMIS and one in the regional Treasury



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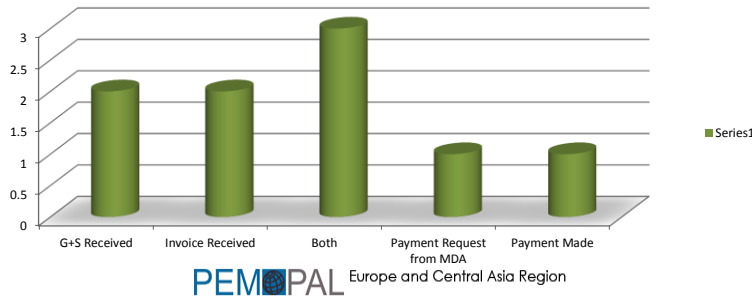
Recognizing Accounts Payable

Nine countries recognize accounts payable, while three do not. For 5 countries this is defined in the general finance law, three in other legislation and one country has it in both the general law and elsewhere



When is Accounts Payable Recognized?

- General practice is to recognize accounts payable when goods and services are received
- This question produced a variety of responses.
- Two countries recognize this on goods receipt, two on receipt of the invoice, three recognize it only when both G+S and an invoice are received. One country only recognizes it when the MDA requests payment and a further country only when it is paid.
- Seven countries indicated that the definition of accounts payable is similar to the one provided in the survey

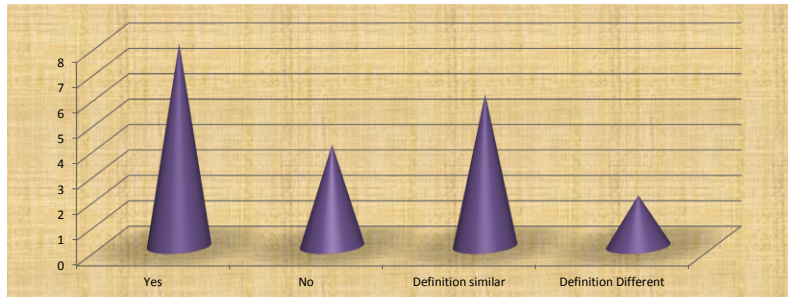


Step 5- Pending Payment and Due Date

- 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 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;
- 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

Stage 5- Due Date

8 countries have a due date, of which six indicated the definition was similar to the one used in the survey. Two indicated different definitions however, in one case the difference was the timeframe which was 60 days. The definition did not specify a timeframe, but used 30 days as an example



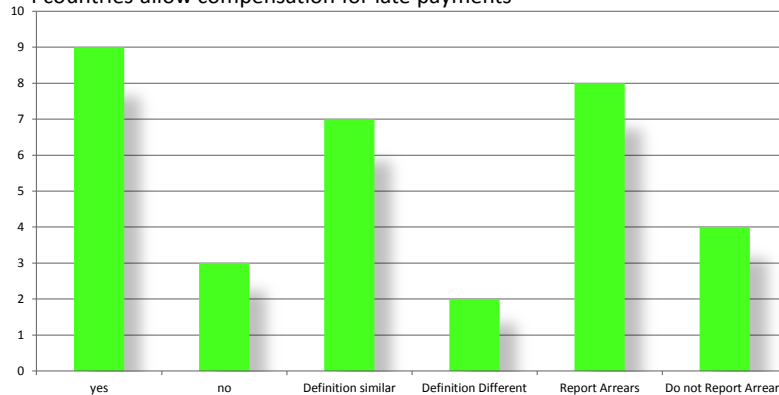
Stage 7 – Payment Arrears

- 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 the stock of arrears also becomes possible by requesting a system based report for those payments which exceed 30 days, 60 days, etc.

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Reporting Payment Arrears

- 9 countries define budget arrears, two do not. Of those 9, 7 indicate they have a similar definition to that used in the survey. 8 countries report arrears, while 4 do not. Perhaps we needed a further questions asking whether arrears exist?
- Only 4 countries define arrears in the General Finance Law, 6 define it elsewhere.
- 4 countries allow compensation for late payments



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Brief Summary of Results

- Most countries have a pre-commitment and commitment stage. Recognition of commitments is however varied
- Only half of the countries recognize goods and services delivery. This has implications for accrual accounting
- Only half of the countries match invoices to commitments – this presents some challenges for budget control
- 9 countries recognize accounts payable, however the point of recognition is not consistent
- 8 countries have a due data and 8 also report on budget arrears
- While some consistent themes emerged, there remains significant differences across PEMPAL countries and in comparison to good practice.
- Has the degree of integration of all of these processes into a FMIS had an impact?
- Has the move to adopting accrual basis IPSAS had an impact?



Questions for Group Discussion

1. Why would countries recognize commitments and accounts payable at different stages of the payment process? Are there challenges for budget, cash management and financial reporting for these different points of recognition?
2. Discuss country definitions of due date and budget arrears. Are there issues with recognition of due date and arrears in a country that is experiencing cash shortfalls?